

MANAGEMENT'S DISCUSSION AND ANALYSIS ("MDA")

The following discussion and analysis of financial condition, results of operations, and liquidity for the year ended December 31, 2009, should be read in conjunction with the audited financial statements and accompanying notes thereto included herein. This discussion and analysis should be read in conjunction with the audited financial statements and accompanying notes thereto included herein. This discussion and analysis should be read in conjunction with the audited financial statements and accompanying notes thereto included herein.

Progress Energy Resources Corp. ("Progress") is a holding company, which, through its subsidiaries, owns and operates electric utility companies. Progress is a holding company, which, through its subsidiaries, owns and operates electric utility companies. Progress is a holding company, which, through its subsidiaries, owns and operates electric utility companies.

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Progress Energy Resources Corp. Annual Financial Statements

2009

MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

The following discussion and analysis of financial results, dated February 22, 2010, should be read in conjunction with the accompanying audited consolidated financial statements and related notes for the year ended December 31, 2009 of Progress Energy Resources Corp. ("Progress" or the "Company") and the audited consolidated financial statements and related notes and MD&A of Progress Energy Trust (the "Trust") for the year ended December 31, 2008. The financial data presented has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The reporting and the measurement currency is the Canadian dollar.

Non-GAAP Measurements Management uses the industry benchmark operating netback to analyze financial and operating performance. This benchmark as presented does not have any standardized meaning prescribed by Canadian GAAP and therefore may not be comparable with the calculation of similar measures for other entities. Operating netback is used by research analysts to compare operating performance and a company's ability to maintain current operations and meet the forecasted capital program. Operating netback is the net result of the Company's revenue net of realized gains and losses on financial instruments, and royalty, operating and transportation expenses as found in the accompanying year end financial statements.

Forward-Looking Statements Certain information regarding Progress set forth in this document, including Management's assessment of the Company's future plans and operations, contains forward-looking statements that involve substantial known and unknown risks and uncertainties. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe" and similar expressions are intended to identify forward looking statements. Such statements represent Progress' internal projections, estimates or beliefs concerning, among other things, an outlook on the estimated amounts and timing of capital investment, anticipated future debt, revenues or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. These statements are only predictions and actual events or results may differ materially. Although Progress believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance or achievement since such expectations are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies. Many factors could cause Progress' actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, Progress.

In particular, forward-looking statements included in this MD&A include, but are not limited to, statements with respect to the size of, and future net revenues from, crude oil and natural gas reserves; future prospects; the focus of and timing of capital expenditures; expectations regarding the ability to raise capital and to continually add to reserves through acquisitions and development; access to debt and equity markets; projections of market prices and costs and the related sensitivity of dividends; the performance characteristics of the Company's crude oil and natural gas properties; crude oil and natural gas production levels; Progress' future operating and financial results; capital investment programs; supply and demand for crude oil and natural gas; future royalty rates; drilling, development and completion plans and the results therefrom; amount of operating and general and administrative expenses; treatment under governmental regulatory regimes and tax laws; estimated tax pool balances; and payment of future dividends. In addition, statements relating to "reserves" or "resources" are deemed to be forward looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitably produced in the future.

These forward-looking statements are subject to numerous risks and uncertainties, certain of which are beyond the Company's control, including the impact of general economic conditions; volatility in market prices for crude oil and natural gas; industry conditions; volatility of commodity prices; currency fluctuation; imprecision of reserve estimates; liabilities inherent in crude oil and natural gas operations; environmental risks; incorrect assessments of the value of acquisitions and exploration and development programs; competition from other producers; the lack of availability of qualified personnel or management; changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry; hazards such as fire, explosion, blowouts, cratering, and spills, each of which could result in substantial damage to wells, production facilities, other property and the environment or in personal injury; stock market volatility; ability to access sufficient capital from internal and external sources and the other risks considered under "Risk Factors" in our annual information form for the year ended December 31, 2009 which is available on www.sedar.com.

With respect to forward-looking statements contained in this MD&A, Progress has made assumptions regarding: current commodity prices and royalty regimes; availability of skilled labour; North American sulphur prices; timing and amount of capital expenditures; future exchange rates; the price of oil and natural gas; the impact of increasing competition; conditions in general economic and financial markets; availability of drilling and related equipment; effects of regulation by governmental agencies; royalty rates and future operating costs.

Management has included the above summary of assumptions and risks related to forward-looking information provided in this MD&A in order to provide shareholders with a more complete perspective on Progress' future operations and such information may not be appropriate for other purposes. Progress' actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that the Company will derive there from. Readers are cautioned that the foregoing lists of factors are not exhaustive. These forward-looking statements are made as of the date of this MD&A and the Company disclaim any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise, other than as required by applicable securities laws.

PLAN OF ARRANGEMENT – CREATION OF PROGRESS ENERGY RESOURCES CORP.

On January 15, 2009 the Trust and ProEx Energy Ltd. ("ProEx") completed the plan of arrangement (the "Arrangement") whereby ProEx acquired all of the issued and outstanding units of the Trust and the exchangeable shares of the Trust's subsidiary, Progress Energy Ltd. and changed its name to Progress Energy Resources Corp. The Trust unitholders received 0.8125 of a ProEx share for each trust unit held and the holders of exchangeable shares received 0.8125 of a ProEx share for each unit they were entitled to by multiplying the exchangeable shares held by the exchange ratio on January 15, 2009 of 1.62092.

Upon completion of the Arrangement, the Trust was liquidated and dissolved and the Company received all of the assets and assumed all of the liabilities of the Trust, including the 6.75 percent and 6.25 percent convertible unsecured subordinated debentures of the Trust (the "Debentures"). The Company is now a mid-sized natural gas focused exploration, development and production company.

As a result of the Arrangement, the former owners of the Trust owned approximately 61 percent of the Company and the former owners of ProEx owned approximately 39 percent. In accordance with Canadian GAAP, the Arrangement is a reverse takeover, whereby the Trust is deemed to be the acquirer of ProEx (the "ProEx Acquisition" or "Reverse Takeover"). Consequently, the consolidated financial statements for 2009 reflect the financial position, results of operations and cash flows of the Company as if the Company had always carried on the business formerly carried on by the Trust. The year ended December 31, 2009 reflect the results of operations and cash flows of the Trust and its subsidiaries for the period January 1 to January 14, 2009 and the results of operations and cash flows of the Company and its subsidiaries for the period January 15 to December 31, 2009. The comparative amounts are the results of the Trust and its subsidiaries. Due to the change from a trust to a corporation, certain information included in the MD&A for prior periods may not be directly comparable.

The total consideration of the Reverse Takeover was approximately \$663.5 million based on the notional issuance of 73,479,481 Trust units at \$9.26 per Trust unit using the weighted average trading price of the Trust for a period before and after the announcement date of November 17, 2008, adjusted for the effect of normal issue costs, and estimated transaction costs and other costs of \$10.3 million. The ProEx Acquisition added approximately 11,500 barrels of oil equivalent ("boe") per day of production and approximately 525,000 net acres of undeveloped land.

Subsequent Events

On February 9, 2010, the Company entered into an agreement to acquire certain northeast British Columbia Foothills assets for approximately \$390 million (the "Foothills Acquisition"). The Foothills Acquisition assets are immediately adjacent to the Company's producing assets in the Town, Bubbles and Blueberry/Beg areas. The Foothills Acquisition represents a strategic fit with the Company's existing northeast British Columbia Foothills properties. The assets include production of approximately 7,300 boe per day, 91 percent natural gas, and approximately 188,000 net acres of undeveloped land. The Foothills Acquisition has an effective date of January 1, 2010 and is expected to close on or about March 31, 2010. Certain of the lands are subject to rights of first refusal ("ROFR"). ROFR lands constitute

approximately 25 percent of the total current production and proved reserves at December 31, 2009 and although the exact amount has not been determined at this time, the percentage of the purchase price allocated to the ROFR properties could be substantially greater. In accordance with the terms of the purchase and sale agreement, the vendor is required to send notices to the third parties subject to a ROFR. These notices have not yet been sent. Such third parties will have a period ranging from 15 to 30 days after receipt of the notice to waive the ROFR, exercise the ROFR or dispute the notice. If a third party entitled to exercise a ROFR exercises its right before closing, closing will still occur but the portion of the Foothills Acquisition assets affected by the ROFR will be excluded from the purchase and the purchase price will be adjusted for the value of such properties. If a third party recipient of a ROFR notice disputes the notice prior to closing, closing will still occur and the title to the Foothills Acquisition assets in dispute will be transferred for the vendor to Progress and the purchase price will be subsequently adjusted pending the outcome of the dispute.

A deposit of \$39 million was made at signing of the purchase and sale agreement which is refundable to Progress if the sale of assets does not occur due either to a default by the Vendor or the Vendor's failure to comply with certain conditions. If the sale does not occur for any other reason, the deposit is forfeited to the Vendor.

The Foothills Acquisition and a portion of the Company's 2010 capital investment program will be funded through a \$350 million subscription receipt private placement with the Canada Pension Plan Investment Board ("CPPIB") and a concurrent \$250 million subscription receipt bought-deal financing through a syndicate of underwriters. Each subscription receipt represents the right to receive one common share of Progress, without the payment of any additional consideration, on the closing of the Foothills Acquisition.

The private placement with CPPIB contains certain conditions in regards to their investment and ongoing relationship with Progress including:

- Lockup provision - requires CPPIB to not sell any shares for an 18 month period following the closing date and CPPIB shall elect to have the shares participate in the dividend reinvestment program.
- Governance - so long as CPPIB owns greater than 12.5 percent of the outstanding common shares they shall have the right to nominate one individual to be a director of Progress. If CPPIB owns greater than 10 percent of the outstanding common shares, Progress shall discuss with CPPIB any proposed transaction for which the Company will require equity financing before implementing such transaction.
- Registration rights - if CPPIB holds 10 percent or more of the outstanding common shares, they shall have the right to require Progress at CPPIB's expense, to prepare, file and obtain receipt for a final prospectus offering for sale any portion of the common shares held by CPPIB.
- After 18 months from the closing of the private placement, CPPIB shall have the right to include common shares owned by CPPIB in a prospectus offering to the extent of 15 percent of such offering.
- Right to participate in future offerings - so long as CPPIB owns greater than 10 percent of the outstanding common shares, CPPIB shall have the pre-emptive right to participate in future offerings up to CPPIB's pro-rata ownership interest immediately prior to the offering.

Operations of the Company for 2010

The following guidance for 2010 assumes the completion of the Foothills Acquisition on March 31, 2010:

Including the Foothills Acquisition, production for 2010 is expected to average approximately 40,000 to 42,000 boe per day. The Company's capital investment program has been set at approximately \$350 million with a primary focus on the Montney and Nikanassin plays in the Foothills and Deep Basin regions. Approximately 75 percent of capital will be invested in drilling and completions activities, 15 percent on major facilities and 10 percent on land and seismic. The production mix for 2010 is expected to be 88 percent natural gas, five percent crude oil and seven percent natural gas liquids.

Royalties - Management of the Company anticipate the average royalty rate for 2010, based on current commodity prices and legislation, to average approximately 20 percent of petroleum and natural gas revenue.

Operating Expense - Management of the Company anticipate operating expenses for 2010 to be between \$6.50 to \$6.75 per boe.

Transportation Expense – Transportation expense of the Company for 2010 is expected to average approximately \$3.30 to \$3.40 per boe, consistent with 2009.

General and Administrative Expenses - Management anticipates general and administrative expenses for the Company to average approximately \$0.95 to \$1.05 per boe in 2010.

Capital Investment Program – As noted above Progress’ capital investment program has been set at approximately \$350 million with a primary focus on the Montney and Nikanassin plays in the Foothills and Deep Basin regions. Approximately one-half of the 2010 capital program will be directed to Montney exploration and development in the Foothills of northeast British Columbia (“BC”). The horizontal drilling program for 2010 includes 18 wells.

Share capital – Outstanding as at February 19, 2010 are the following

	Shares outstanding or issuable
Common shares	165,381,418
Convertible debentures	17,251,658
Stock options	5,868,533
Restricted Unit Awards	93,259
Performance Unit Awards	258,450
Performance units from the Trust	716,418
LTI component from the Trust	98,424

As a result of the financing in relation to the Foothills Acquisition, there will be 47,630,000 subscription receipts outstanding which represent a right to receive 47,630,000 common shares upon the closing of the Foothills Acquisition expected on or about March 31, 2010.

Sensitivities - Based on the above assumptions, the following sensitivities are provided to demonstrate the impact on net earnings of changes in commodity prices, production and interest rates.

(\$ millions)	Estimated Effect on 2010 Cash Flow ⁽¹⁾⁽²⁾	Estimated Effect on 2010 Net Earnings ⁽¹⁾⁽²⁾
Change of \$0.25 per mcf in the price of natural gas	15.8	8.2
Change of \$5.00 per barrel in the price of crude oil	4.9	3.5
Change of 5,000 mcf/d in natural gas production	6.7	4.8
Change of 500 bbls/d in crude oil production	8.7	6.3
Change of 1% in prime interest rates	2.9	2.1

(1) These sensitivities reflect prices, production, and interest rates within the context of current market rates. The sensitivities above will no longer apply above the ceiling or below the floor price limits set by existing natural gas financial contracts.

(2) Sensitivities assume the completion of the Foothills Acquisition.

DESCRIPTION OF BUSINESS

Progress is a Calgary based, natural gas focused Company. The principal undertaking of the Company is to explore for, develop and hold interests in petroleum and natural gas properties. Primary operating regions include the Deep Basin of northwest Alberta and the northeast British Columbia Foothills and Fort St. John Plains regions. The common shares of the Company trade on the Toronto Stock Exchange (“TSX”) under the symbol PRQ. The 6.75 percent, 6.25 percent, and 5.25 percent convertible unsecured subordinated debentures trade on the TSX under the symbols PRQ.DB, PRQ.DB.A, and PRQ.DB.B, respectively.

RELATIONSHIP WITH PROEX ENERGY LTD. PRIOR TO THE ARRANGEMENT

Progress (formerly ProEx) was created as part of a plan of arrangement effective July 2, 2004 which included the creation of the Trust. Progress had no ownership interest in the Trust and the Trust had no ownership interest in Progress. Progress had no employees. The Trust provided personnel and services to Progress under a technical services agreement ("Technical Services Agreement") which was terminated on completion of the Arrangement. The Technical Services Agreement was put in place to ensure the sharing of costs of operating both companies using the Trust's employees. The Trust provided personnel and certain administrative and technical services to Progress in connection with the management, development, exploitation and operation of the assets of Progress and the marketing of its production. The Trust provided these services in accordance with the Technical Services Agreement.

Progress and the Trust also shared the cost of long-term compensation and consequently Progress had granted stock options and shares to employees and executives of the Trust as service providers and had also participated in a long term incentive plan by granting Progress common shares to employees of the Trust, excluding the executives. To facilitate this plan, the Trust purchased Progress common shares and was reimbursed by Progress for the cost incurred. As at December 31, 2009 22,050 Progress common shares (2008 – 184,489) remain outstanding under this plan.

Prior to the Arrangement, Progress and the Trust had joint interest in certain properties and undeveloped land in the northeast British Columbia Foothills and Fort St. John Plains regions. These joint interest properties were governed by standard industry agreements and in addition Progress had entered into a protocol arrangement ("Protocol Arrangement") with the Trust that specified how each company would manage the joint lands in specifically identified areas of interest. To ensure good governance practices, both Progress and the Trust had each created independent committees of their Board of Directors to monitor compliance with the Technical Services Agreement and the Protocol Arrangement.

OPERATING SUMMARY

In accordance with Canadian industry practice, production volumes, reserve volumes and revenues are reported on a Company interest basis (working interest plus royalty interest), before deduction of Crown and other royalties, unless otherwise indicated. The Company's results of operations are dependent on production volumes of natural gas, crude oil and natural gas liquids and the prices received for this production. Prices for these commodities have shown significant volatility during recent years and are determined by supply and demand factors, including weather, general economic conditions and changes in the Canadian/United States ("US") currency exchange rate.

In this MD&A, production and reserves information may be presented on a "barrel of oil equivalent" or "boe" basis with six thousand cubic feet ("mcf") of natural gas being equivalent to one barrel ("bbl") of crude oil or natural gas liquids. Boe's may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Production

	Fourth Quarter of 2009	Fourth Quarter of 2008	2009	2008	Change
Daily Production					
Natural gas (mcf/d)	161,497	124,342	166,939	124,814	34%
Crude oil (bbls/d)	1,882	1,762	2,008	1,987	1%
Natural gas liquids (bbls/d)	2,592	1,748	2,284	1,794	27%
Total daily production (boe/d)	31,390	24,233	32,115	24,583	31%
Sulphur sales (tons/d)	97	31	85	36	136%
Natural gas as a % of total production	86%	86%	87%	85%	

Production in 2009 averaged 32,115 boe per day consisting of 166,939 mcf per day of natural gas, 2,008 bbls per day of crude oil and 2,284 bbls per day of natural gas liquids. This production was 31 percent higher than 2008 with production averaging 24,583 boe per day due to the production acquired through the ProEx Acquisition on January 15, 2009. In response to the natural gas price environment for much of 2009, the Company delayed bringing on

new production from wells drilled during the year until the fourth quarter and during September and October of 2009, the Company shut-in natural gas production of approximately 5,000 boe per day. Additionally, the 2009 capital investment program was adjusted downward from the original \$350 million which was based on a stronger natural gas price environment. As a result, production for the year averaged below expectations at the start of 2009 of 35,000 to 36,000 boe per day. The Company's production portfolio in 2009 was weighted 87 percent to natural gas, six percent to crude oil and seven percent to natural gas liquids.

Natural gas production increased 34 percent in 2009 to 166,939 mcf per day compared to 124,814 mcf per day in 2008. The increase was due to the production acquired through the ProEx Acquisition.

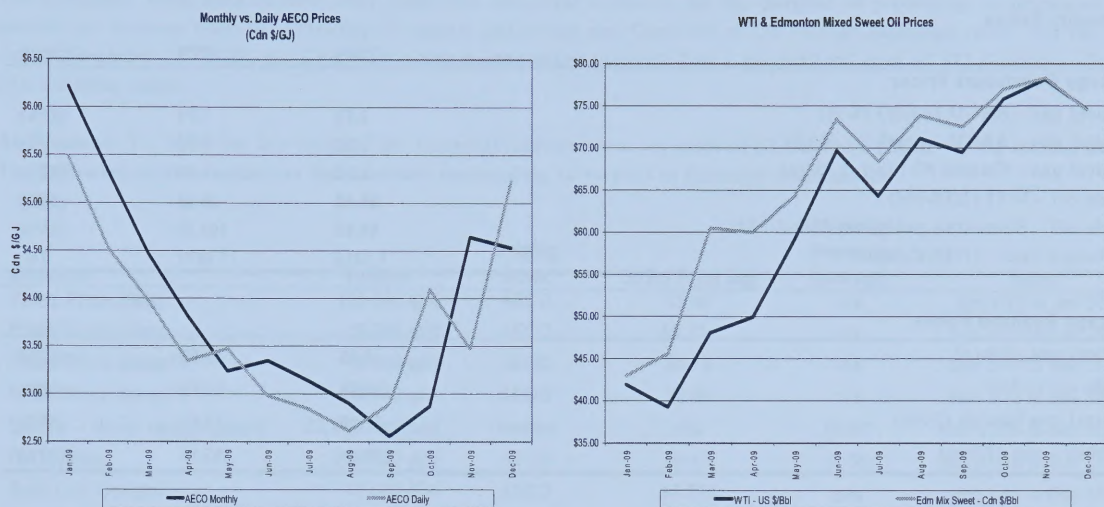
Crude oil and natural gas liquids production in 2009 of 4,292 bbls per day was higher than 2008 of 3,781 bbls per day due to the production acquired through the ProEx Acquisition.

The Company's 2009 fourth quarter production averaged 31,390 boe per day, comprised of 161,497 mcf per day of natural gas, 1,882 bbls per day of crude oil and 2,592 bbls per day of natural gas liquids. This was higher than the fourth quarter of 2008 which averaged 24,233 boe per day, comprised of 124,342 mcf per day of natural gas, 1,762 bbls per day of crude oil and 1,748 bbls per day of natural gas liquids. The increase was a result of the ProEx Acquisition offset by the Company delaying, due to weak natural gas prices, the start-up of new production from wells drilled during the year until November and during October the Company shut-in natural gas production of approximately 5,000 boe per day. For a full analysis of fourth quarter production refer to the Fourth Quarter Analysis section in this MD&A.

Production by Region

(boe/d)	Fourth Quarter 2009	Fourth Quarter 2008	Change	2009	2008	Change
Foothills	14,752	6,497	127%	15,368	6,515	136%
Fort St. John Plains	1,939	1,721	13%	2,036	1,716	19%
Other	623	941	(34%)	736	1,057	(30%)
Total British Columbia	17,314	9,159	89%	18,140	9,288	95%
Deep Basin	12,076	12,901	(6%)	11,924	12,914	(8%)
Central Alberta	1,398	1,640	(15%)	1,514	1,672	(9%)
Other	602	530	14%	537	580	(7%)
Total Alberta	14,076	15,071	(7%)	13,975	15,166	(8%)
Saskatchewan	-	3	(100%)	-	129	(100%)
Total daily production	31,390	24,233	30%	32,115	24,583	31%

Pricing and Risk Management



Natural Gas Markets

Progress' realized natural gas price for the year ended December 31, 2009 was \$4.13 per mcf (2008 - \$8.59 per mcf) compared to the Canadian Alberta Energy Company interconnect with the TransCanada Alberta system ("AECO") daily index average of \$3.74 per gigajoule ("gj") and the AECO monthly index average of \$3.92 per gj (2008 - \$7.71 per gj and \$7.70 per gj, respectively). Progress marketed its natural gas at a mix of daily and monthly pricing.

Natural gas prices in North America moved downward through much of the first three quarters of 2009 reaching an intraday trading low of US\$2.41 per million British Thermal Units (mmbtu) on September 4, 2009. Since that time, prices have risen and 2009 closed the year at US\$5.57 per mmbtu. The natural gas supply and demand balance was tested through the year as a drop in gas drilling levels was more than offset by reduced industrial demand. Although the economy began showing signs of recovery through the later half of the year, industrial natural gas demand remained well below prior years. Reduced natural gas directed drilling was increasingly offset by horizontal drilling in higher productivity shale gas wells. This meant that gas production failed to decline at rates consistent with historical declines in drilling activity. Natural gas storage began winter at near record capacity, but in spite of relatively warm weather through November, colder than normal weather arrived in December to boost heating and power demand. In aggregate, the supply-demand balance for natural gas is improving with a recovery in the overall economy driven by government stimulus programs and growth in emerging economies.

Oil Markets

Progress' realized prices for its liquids streams for the year ended December 31, 2009 were \$59.78 per bbl (2008 - \$95.72 per bbl) for crude oil and \$42.05 per bbl (2008 - \$73.85 per bbl) for natural gas liquids.

Crude oil prices increased during 2009 as supply declined faster than demand. Although strong demand from China and India continued throughout the year, North American oil drilling slowed and domestic supply declined. WTI oil pricing was significantly influenced by swings in the value of the US dollar and in turn, the changes in the equity markets. Through the year, crude oil and refined product inventories along with refinery utilization provided additional volatility. As prices increased, the futures market priced the oil such that oil tankers became floating inventory as the ship leasing cost was less than the price increase to be gained. OPEC production quotas which had seen reasonably high compliance early in 2009 slipped to 58 percent compliance by year end. This combined with the uncertainty surrounding the floating storage volumes added to the volatility during 2009.

Crude oil prices concluded 2009 with WTI trading at US\$79.36/Bbl for a net increase of US\$33.02/Bbl from the US\$46.34/Bbl where it had traded at the start of the year.

Commodity Prices

	2009	2008	Change
Average Benchmark Prices			
Natural gas - AECO (daily) (\$/gj)	3.74	7.71	(51%)
Natural gas - AECO (monthly) (\$/gj)	3.92	7.70	(49%)
Natural gas - Station #2 (daily) (\$/gj)	3.65	7.60	(52%)
Crude oil - WTI (US\$/bbl)	61.80	99.68	(38%)
Crude oil - Edmonton par price (Cdn\$/bbl)	65.95	102.15	(35%)
Exchange rate – (US\$/Cdn\$)	1.1415	1.0671	7%

Average Realized Prices			
Natural gas (\$/mcf)	4.13	8.59	(52%)
Crude oil (\$/bbl)	59.78	95.72	(38%)
Natural gas liquids (\$/bbl)	42.05	73.85	(43%)
Sulphur – net (\$/ton)	(10.91)	395.65	(103%)

Natural Gas Pricing

US natural gas prices are typically referenced off NYMEX at Henry Hub, Louisiana while Alberta natural gas is referenced off the AECO Hub and British Columbia natural gas off of Sumas Washington or Station #2 market centers. Virtually all of Progress' natural gas was sold at market prices at one of the Alberta or British Columbia hubs.

Natural Gas Production and Prices by Province

	2009		2008	
	mcf/d	\$/mcf	mcf/d	\$/mcf
Alberta	67,022	4.21	74,861	8.71
British Columbia	99,917	4.08	49,845	8.45
Saskatchewan	-	-	108	8.17
Total production and average sales price	166,939	4.13	124,814	8.59

Alberta Natural Gas Prices

	2009	2008
NYMEX (US\$/mmbtu 12 month average – last 3 days)	4.03	8.95
Less: AECO basis differential to Henry Hub (US\$/mmbtu)	(0.55)	(1.31)
AECO (US\$/mmbtu)	3.48	7.64
Average exchange rate	1.1415	1.0671
AECO price (Cdn\$/mmbtu daily average)	3.97	8.15
Premium: Progress realized price vs spot ⁽¹⁾	0.24	0.56
Progress average realized Alberta price (Cdn\$/mcf)	4.21	8.71

(1) Includes the conversion of mmbtu's to mcf.

British Columbia Natural Gas Prices

	2009	2008
NYMEX (US\$/mmbtu 12 month average – last 3 Days)	4.03	8.95
Less: Station #2 basis differential to Henry Hub (US\$/mmbtu)	(0.66)	(1.43)
Station #2 (US\$/mmbtu)	3.37	7.52
Average exchange rate	1.1415	1.0671
Station #2 price (Cdn\$/ mmbtu daily average)	3.85	8.02
Premium: Progress realized price vs. spot ⁽¹⁾	0.23	0.43
Progress average realized British Columbia price (Cdn\$/mcf)	4.08	8.45

(1) Includes the conversion of mmbtu's to mcf.

Price Risk Management

The Company, from time to time, may enter into financial contracts for the purpose of protecting its petroleum and natural gas revenue from the volatility of natural gas prices and Canadian to US foreign exchange rates. For the year ended December 31, 2009, the Company's risk management program had a net realized gain of \$18.4 million (2008 - \$12.1 million loss).

At December 31, 2009 the fair value of the financial contracts was an asset of \$2.8 million (2008 - \$10.2 million asset). The following table summarizes the contracts outstanding in respect to financial instruments:

Contracts	Volume	Pricing Point	Strike Price \$/gj	Differential / Premium (average)	Term
Fixed Price Swap	100,000 gj/d	AECO	\$5.00	n/a	Jan 1/10 to Jan 31/10
Fixed Price Swap	25,000 gj/d	AECO	\$5.335	n/a	Feb 1/10 to Feb 28/10
Fixed Price Swap ⁽¹⁾	10,000 gj/d	AECO	\$5.75	n/a	Mar 1/10 to Dec 31/10
Fixed Price Swap ⁽¹⁾	10,000 gj/d	AECO	\$5.80	n/a	Mar 1/10 to Dec 31/10
Swaps – basis hedge (total)	25,000 mmbtu/d	Nymex	n/a	(0.63)	Nov 01/09 to Mar 31/10
Put Option	25,000 gj/d	AECO	\$6.43	(1.08)	Nov 01/10 to Mar 31/11
Sold Call Option ⁽¹⁾	10,000 gj/d	AECO	\$7.575	n/a	Jan 1/11 to Dec 31/11
Sold Call Option ⁽¹⁾	10,000 gj/d	AECO	\$7.50	n/a	Jan 1/11 to Dec 31/11

(1) Entered into subsequent to December 31, 2009

The Company's 2008/2009 winter financial contracts expired on March 31, 2009 and during the year the Company entered into financial contracts for the 2009/2010 winter season which included AECO to Nymex swaps less a fixed discount and foreign exchange swaps. The aggregate AECO to Nymex swaps average 25,000 mmbtu per day at an average differential of \$0.63 from November 1, 2009 to March 31, 2010. The foreign exchange swaps were settled in the fourth quarter of 2009 for net proceeds to the Company of \$1.3 million. The change in the fair value of the financial contracts for the year ended December 31, 2009 was a loss of \$11.7 million (2008 - \$10.2 million gain). The loss for the year ended December 31, 2009 was due to the expiration of the 2008/2009 winter contracts on March 31, 2009, including those acquired in the ProEx Acquisition. The change in the fair value of the financial contracts for the 2008 was due to decreasing future natural gas prices.

The Company's hedging activities, as detailed in note 12 to the consolidated financial statements for the year ended December 31, 2009, were conducted pursuant to the Company's Risk Management Policy approved by the Board of Directors. The Risk Management Policy had the following objectives:

- To reduce risk exposure to budgeted annual petroleum and natural gas revenue projections resulting from uncertainty or changes in commodity prices, interest rates or foreign exchange.
- To limit the permissible structures to ensure hedging effectiveness.
- To limit hedging up to a maximum of 50 percent of budgeted annual production before royalties.
- To limit hedging activity to counter-parties which provide sufficient collateral in support of payment or have investment grade credit ratings.

Revenue

Petroleum and natural gas revenue decreased 36 percent to \$330.3 million in 2009 from \$514.7 million in 2008 as lower commodity prices more than offset the increase in production as a result of the ProEx Acquisition. Production averaged 32,115 boe per day in 2009 compared to 24,583 boe per day in 2008 while realized commodity prices decreased 51 percent to \$28.17 per boe in 2009 from \$57.21 per boe in 2008. Petroleum and natural gas revenue in 2009 consisted of \$251.8 million from natural gas sales, \$43.8 million from crude oil sales and \$35.0 million from the sale of natural gas liquids.

(\$ thousands)	2009	2008	Change
Natural gas sales	251,782	392,413	(36%)
Crude oil sales	43,762	69,616	(37%)
Natural gas liquids sales	35,046	48,499	(28%)
Sulphur sales (net)	(333)	4,192	(108%)
Petroleum and natural gas revenue	330,257	514,720	(36%)

(\$ thousands)	Natural Gas	Crude Oil & NGLs	Sulphur	Total
2008 Petroleum and natural gas revenue	392,413	118,115	4,192	514,720
Price variance	(273,071)	(55,270)	(10,231)	(338,572)
Production variance	132,440	15,963	5,706	154,109
2009 Petroleum and natural gas revenue	251,782	78,808	(333)	330,257

Royalties

Royalty expense consists of royalties paid to provincial governments, freehold landowners and overriding royalty owners. Royalties decreased 63 percent to \$42.4 million in 2009 from \$115.8 million in 2008 due to lower revenues, as a result of lower commodity prices. The Company's average royalty rate in 2009 was 12.8 percent compared to 22.5 percent in 2008 as a result of lower commodity prices.

Alberta Royalties

On October 25, 2007 the Alberta government announced the New Royalty Framework ("new framework"), which took effect on January 1, 2009. The new framework is based on a new simplified royalty formula for natural gas that operates on a sliding scale determined by commodity prices, well productivity and drilling depth. The Company's Deep Basin well depths range between 2,300 to 2,700 meters which are eligible for the new measured depth drilling formula.

On November 19, 2008 the Alberta government announced that in response to the global economic crisis and a slowdown in crude oil and natural gas drilling throughout the province, it has implemented a transitional royalty program in which, companies drilling certain new wells after November 19, 2008, have a one-time option of selecting the transitional royalty program or the new framework. All wells drilled between 2009 and 2013 that adopt the transitional royalty program will be required to shift to the new framework on January 1, 2014. As a result, all of the Company's Alberta wells, drilled before November 19, 2008 are now under the new framework. For all Alberta wells drilled after November 19, 2008, the Company has completed the required elections for those wells it has determined would economically benefit under the transitional royalty program.

On March 3, 2009 the Alberta government made a third announcement regarding royalties which provided incentives for the energy sector in response to the current global economic slowdown. The incentives include a drilling royalty credit for new conventional oil and natural gas wells of up to \$200 per meter drilled and a maximum five percent royalty rate for the first year of production from new oil or gas wells brought on production after April 1, 2009. On June 25, 2009 the Alberta government extended these incentives to March 31, 2011. The drilling royalty credit may be reduced depending on the amount of Alberta production on crown lands and how much crown royalties are paid. Progress has determined that it qualifies for the full credit. Progress is continuing to assess the impact of the incentives and will adjust drilling plans and the timing of bringing wells on production accordingly. As at December 31, 2009 approximately \$5.9 million in Alberta drilling credits have been earned and recognized as a reduction to capital spending.

British Columbia Royalties

On August 6, 2009 the government of BC announced an oil and gas stimulus package to enhance BC's competitive business climate and encourage continued oil and gas development and exploration. The package is comprised of two parts; a two percent royalty relief program and a change to the deep royalty credit program. The two percent royalty relief program applies to all natural gas wells drilled in a 10 month window (August 31, 2009 to July 1, 2010). The two percent royalty will apply to the first 12 months of production where production must commence before December 31, 2010.

The change to the deep royalty credit program includes an increase of 15 percent to the existing royalty deductions for natural gas deep drilling and the inclusion of horizontal wells drilled between 1,900 and 2,300 metres. The change applies to wells spudded after August 31, 2009.

The two percent royalty relief program and the deep royalty credit program will co-exist but a company will only receive the benefits of one program at a time. The deep royalty credit will apply first. If it is exhausted before 12 months of production, the two percent royalty will be in effect for the remainder of the 12 months. If the deep royalty credit is not exhausted before 12 months, the two percent royalty program will not apply.

Progress is continuing to review the incentives available in both Alberta and BC and has considered the benefits of each program in its current and future drilling plans.

<i>(\$ thousands)</i>	2009	2008
Crown	36,362	101,497
Freehold and overriding	6,017	14,346
Total royalty expense	42,379	115,843
Royalties (\$/boe)	3.62	12.88
Average royalty rate (%)	12.8	22.5

The following table provides a break down of royalties by product:

<i>(\$ thousands, except where otherwise indicated)</i>	2009	2008
Natural gas royalties	22,006	86,900
\$/boe	2.17	11.41
Average natural gas royalty rate (%)	8.7	22.1
Crude oil royalties	8,652	13,195
\$/boe	11.80	18.14
Average crude oil royalty rate (%)	19.8	19.0
Natural gas liquids royalties	11,011	15,043
\$/boe	13.21	22.91
Average natural gas liquids royalty rate (%)	31.4	31.0

Operating Expenses

Operating expenses increased 42 percent to \$79.9 million in 2009 compared to \$56.4 million in 2008. The increase was the result of higher production in 2009 compared to 2008, reflecting the impact of the ProEx Acquisition. On a boe basis, operating expenses increased nine percent for 2009 to \$6.82 compared to \$6.27 in 2008. In response to the natural gas price environment for much of 2009, the Company delayed bringing on new production from wells drilled during the year until the fourth quarter and during September and October of 2009, the Company shut-in natural gas production of approximately 5,000 boe per day. As a result operating expenses on a boe basis were negatively affected.

<i>(\$ thousands except where otherwise indicated)</i>	2009	2008	Change
Operating expenses - total	79,912	56,413	42%
\$/boe	6.82	6.27	9%
Operating expenses - natural gas properties	67,317	45,260	49%
\$/boe	6.20	5.55	12%
Operating expenses - crude oil properties	12,595	11,153	13%
\$/boe	14.57	13.14	11%

Transportation Expenses

Transportation expenses increased 89 percent to \$35.9 million in 2009 compared to \$19.0 million in 2008. On a boe basis, transportation expenses in 2009 increased 45 percent to \$3.07 compared to \$2.11 in 2008. The increase is due to the additional production as a result of the ProEx Acquisition, as well as, ProEx having a higher transportation charge on its production. All of ProEx's production was in BC where producers pay an all-in charge for regulated gathering, processing and transmission fees enabling producers to avoid facility construction. This all-in charge is included in transportation expenses.

Operating Netbacks

Although many wells produce both crude oil and natural gas, a well is categorized as a natural gas well or an oil well based upon the higher proportion of natural gas or crude oil production. The following table summarizes the operating netbacks for natural gas properties, oil properties and all properties combined:

	2009	2008
Natural Gas Properties (\$/mcf)		
Sales price	4.41	8.96
Realized gain (loss) on financial instruments	0.28	(0.27)
Royalties	(0.52)	(2.03)
Operating expenses	(1.03)	(0.93)
Transportation expenses	(0.53)	(0.36)
Operating netback – natural gas properties	2.61	5.37
Oil Properties (\$/bbl)		
Sales Price	49.93	86.15
Royalties	(9.92)	(18.57)
Operating expenses	(14.57)	(13.14)
Transportation expenses	(1.82)	(1.89)
Operating netback – oil properties	23.62	52.55
All Properties (\$/boe)		
Sales Price ¹	28.17	57.21
Realized gain (loss) on financial instruments	1.57	(1.35)
Royalties	(3.62)	(12.88)
Operating expenses	(6.82)	(6.27)
Transportation expenses	(3.07)	(2.11)
Operating netback – all properties	16.23	34.60

¹ Includes sulphur net revenue with no associated production as no conversion exists for tons to boe.

General and Administrative Expenses

General and administrative expenses net of overhead recoveries on operated properties, (“G&A”) increased 32 percent to \$13.6 million (\$1.16 per boe) in 2009 compared to \$10.3 million (\$1.14 per boe) in 2008. The increase in G&A for the year over 2008 was due to the ProEx Acquisition and related termination of the Technical Services Agreement.

<i>(\$ thousands)</i>	2009	2008
Gross G&A	23,314	25,960
Technical services fees from ProEx	(746)	(8,988)
Operator recoveries	(6,874)	(5,247)
Capitalized expenses	(2,090)	(1,441)
Total G&A expense	13,604	10,284
G&A (\$/boe)	1.16	1.14

In accordance with the Technical Services Agreement with ProEx, the Trust had provided personnel and certain administrative and technical services in connection with the management, development, exploitation and operation of the assets of ProEx and the marketing of its production. The Trust provided these services to ProEx on an expense

reimbursement basis, based on ProEx's monthly capital activity and production levels relative to the combined capital activity and production levels of both the Trust and ProEx. Total expenses reimbursed by ProEx for the year was \$0.7 million, which were incurred prior to the termination of the Technical Services Agreement, compared to \$9.0 million in 2008.

The magnitude of operator recoveries is a function of activity levels and the degree to which operations are operated by the Company. Progress operated 89 percent of its production and operated the majority of the drilling and construction activity. Operator recoveries were \$6.9 million for 2009 compared to \$5.2 million in 2008, the increase being a result of an increase in the number of operated wells due to the ProEx Acquisition.

The Company capitalized approximately \$2.1 million of G&A in 2009 and \$1.4 million in 2008. The majority of these costs represent geological and geophysical employee compensation.

Stock Based Compensation Expenses

Stock Options, Restricted Units and Performance Units

In conjunction with the Arrangement, the Company has established a stock based compensation plan (the "Plan") comprised of a Stock Option Plan, as well as a Share Unit Plan which includes both Restricted Unit Awards and Performance Unit Awards. Unless otherwise approved by the shareholders, the Company may grant up to a maximum of 1,700,000 common shares pursuant to the Share Unit Plan. The Restricted Unit Awards are whole share awards that entitle the holder to that number of shares at the end of the vesting period. Performance Unit Awards are similar to the Restricted Unit Awards however, a performance factor is applied to the grant on the vesting date. Both the Restricted Unit Awards and Performance Unit Awards vest at the end of a three year period and include accumulated dividends paid over the three year period, however for new employees, their initial grant will vest 20 percent on the first anniversary date, 30 percent on the second anniversary and 50 percent on the third anniversary. Under the Stock Option Plan, unless otherwise approved by the shareholders, the Company may grant up to a maximum of 10,000,000 stock options. The stock options granted under the Stock Option Plan vest one third in each of the second, third and fourth year anniversary dates from the date of grant. The options expire in five years from the date of grant.

Grants that were outstanding from the Trust and ProEx, which include performance units and units granted under the Long Term Incentive Component ("LTI") as well as stock options of ProEx, will continue until their original vesting dates.

Long Term Incentive Component of the Trust

Awards granted under the LTI component of the Trust's compensation plan will vest over three years with 40 percent vesting on the second anniversary of the date of grant and 60 percent vesting on the third anniversary of the date of grant. An additional 15 percent grant will be paid if the holder holds the common shares they receive on the second anniversary date for one additional year. For the year ended December 31, 2009, 53,719 common shares were issued to settle LTI amounts that vested. As at December 31, 2009 100,956 common shares remain outstanding under the LTI component at an average value of approximately \$17.13 per share. The total compensation cost of the LTI component is approximately \$2.7 million of which \$2.5 million will be recognized through stock based compensation expense and \$0.2 million will be capitalized over the vesting period.

Long Term Incentive Component of ProEx

ProEx participated in the Trust's LTI by granting common shares to non-executive Trust employees in their capacity as service providers. To facilitate these awards, the Trust had purchased ProEx common shares and was reimbursed by ProEx for the cost incurred. The ProEx awards granted under the LTI vest on the second anniversary date of the date of grant. As these shares have been purchased and will not be issued from treasury, the stock based compensation expense is a cash expense and the shares granted do not impact the diluted number of shares outstanding. During 2009 156,074 common shares were released to employees on the vesting of their ProEx LTI and as at December 31, 2009 22,050 common shares have not yet vested.

Performance Units of the Trust

The performance units granted by the Trust vest at the end of a three year performance period at which time they will be converted to common shares, or the cash equivalent, and include the accumulated distributions of the Trust and accumulated dividends of the Company over the three year period. For new employees, their initial grant will vest 20 percent on the first anniversary date, 30 percent on the second anniversary and 50 percent on the third anniversary. The actual number of common shares paid is dependent upon a performance factor that is determined based on the Company's performance relative to its peers and ranges from 0.5 to 1.5 times the initial grant, except for performance units granted to the Trust's executives effective July 2, 2007 and 2008 which can range from 0 to 3 times. Payment may be in the form of cash or common shares, at the Company's option. Management anticipates, at the end of the performance period, accumulated distributions and dividends will be paid in cash and common shares will be paid from treasury. Actual performance factors will not be determined until the end of the three year performance periods.

For the year ended December 31, 2009, stock based compensation expenses increased 39 percent to \$11.6 million (\$0.99 per boe) compared to \$8.3 million (\$0.93 per boe) for the same period in 2008. The increase is due to the ProEx Acquisition.

As at December 31, 2009, there were 5,872,533 stock options outstanding. This includes 4,574,000 stock options that were granted under the Stock Option Plan and 1,298,533 stock options granted by ProEx prior to the Arrangement that will continue until their original expiry date or until they are exercised or forfeited.

The following tables summarize the activity for the year ended December 31, 2009 and 2008 for the stock options, performance units of the Trust and the units under the LTI component of the Trust.

Stock Options	Number of options	Weighted average exercise price
Balance, beginning of year	-	-
ProEx options assumed on the Arrangement	1,674,867	12.86
Granted	4,616,500	11.36
Forfeited	(170,168)	12.88
Exercised	(248,666)	7.02
Balance, end of year	5,872,533	11.93

Restricted Units

	2009	2008
Balance, beginning of year	-	-
Granted	93,259	-
Balance, end of year	93,259	-

Vesting Date

2012	93,259	-
Total	93,259	-

Performance Units

	2009	2008
Balance, beginning of year	-	-
Granted	259,950	-
Balance, end of year	259,950	-

Vesting Date

2012	259,950	-
Total	259,950	-

Performance Units of the Trust¹

	2009	2008
Balance, beginning of year	1,087,247	1,127,913
Granted	-	453,375
Performance factor adjustment ²	144,543	191,709
Settled ²	(450,180)	(589,383)
Forfeited	(63,892)	(96,367)
Balance, end of year	717,718	1,087,247

Vesting Date

2009	-	307,535
2010 ³	319,373	354,754
2011	398,345	424,958
Total	717,718	1,087,247

(1) All amounts have been adjusted to reflect the ratio of 0.8125 of a common share for each trust unit as specified in the Arrangement.

(2) As a result of the Arrangement, the performance units granted to non-executive employees in 2006, vested and were settled at a performance factor of 1.5 times resulting in the issuance of 202,495 common shares. The executive portion was settled in June of 2009 at a performance factor of 1.5 times resulting in the issuance of 231,136 common shares. For non-executive employees, who receive their initial performance unit grants at the phased in vesting, 16,549 common shares were issued during the year ended December 31, 2009.

(3) Using the current anticipated performance factor of 1.25 times, 85,132 additional common shares will be issued on the vesting of the 2010 performance units.

Units under LTI Component ¹	2009	2008
Balance, beginning of year	161,284	153,957
Granted	-	23,967
Settled	(53,719)	-
Forfeited	(6,609)	(16,640)
Balance, end of year	100,956	161,284

Vesting Date		
2009	-	55,038
2010	86,993	92,033
2011	13,963	14,213
Total ²	100,956	161,284

(1) All amounts have been adjusted to reflect the ratio of 0.8125 of a common share for each trust unit as specified in the Arrangement.

(2) An additional 15 percent grant will be paid to LTI holders if a holder holds the shares they receive on the second anniversary date for one additional year. This would result in an additional 23,206 common shares issued by the Company.

Interest and Financing Expenses

Interest and financing expenses in 2009 increased 19 percent to \$28.4 million compared to \$23.9 million in 2008. The increase was mainly due to the increase in bank debt as a result of the ProEx Acquisition and to fund capital expenditures during the last half of 2008 and the first half of 2009. This was partially offset by lower interest rates on bank debt in 2009 compared to the same periods in 2008.

Debenture interest, accretion and amortized issue costs relate to three debenture issues; the 6.75 percent debentures issued on February 2, 2005, the 6.25 percent debentures issued on August 22, 2006, and the 5.25 percent debentures issued on October 23, 2009 (the "Debentures"). The increase in Debenture interest in 2009, is due to the issuance of \$200 million principal amount of 5.25 percent convertible unsecured subordinated debentures issued on October 23, 2009. For more information regarding the Debentures, see the "Liquidity and Capital Resources" section below.

(\$ thousands)	2009	2008
Interest on bank debt	14,261	12,822
Interest on Debentures	10,423	8,445
Amortization of Debenture issue costs	1,422	1,115
Accretion on debt portion of Debentures ¹	2,315	1,476
Total interest and financing expense	28,421	23,858
Interest and financing expense (\$/boe)	2.42	2.65
Average bank debt outstanding	388,433	293,159
Average bank debt interest rate (%)	3.7	4.4
Average bank prime lending rate (%)	2.4	4.7

(1) Under Canadian GAAP, the fair value of the conversion feature of the Debentures is classified as equity and the remainder is classified as debt. Over the term of the Debentures, the debt portion will accrete up to the principal balance at maturity with the charge going to interest and financing expenses.

Subsequent to year end, Progress extended the renewal date for its \$650 million extendible revolving term credit facility to March 31, 2010. The facility is described in the "Liquidity and Capital Resources" section below.

Depletion, Depreciation and Accretion

Depletion and depreciation of property, plant and equipment and the accretion of the asset retirement obligations ("DD&A") increased 52 percent to \$224.5 million in 2009 compared to \$147.3 million in 2008. The increase is due to the ProEx Acquisition. This resulted in DD&A per boe in 2009 of \$19.15 compared to \$16.37 recognized in 2008.

<i>(\$ thousands)</i>	2009	2008
Depletion	220,988	143,795
Depreciation	593	672
Accretion of asset retirement obligations	2,876	2,798
Total DD&A expense	224,457	147,265
DD&A (\$/boe)	19.15	16.37

Income and Capital Taxes

The provision for current income taxes for 2009 includes a recovery resulting from a revaluation of the estimated tax provision of a predecessor company of Progress.

The provision for future income taxes for 2009 was a recovery of \$21.0 million compared to an expense of \$3.2 million for 2008. The recovery in 2009 was due to a pre-tax loss for the year due to lower revenues as a result of lower commodity prices and higher expenses as a result of the ProEx Acquisition. The expense in 2008 was due to higher pre-tax earnings.

Progress' estimated tax pool balances as at December 31, 2009 total approximately \$1.7 billion.

Non-Controlling Interest – Exchangeable Shares

As a result of the Arrangement on January 15, 2009 all of the exchangeable shares of the Trust were converted to common shares of the Company. Prior to the Arrangement the exchangeable shares of the Trust's subsidiary traded on the TSX, thereby allowing holders of the exchangeable shares to dispose of them without having to exchange them for trust units and consequently, they were classified as non-controlling interest outside of shareholders' equity. The net earnings attributable to the exchangeable shares was charged to the consolidated statement of earnings as non-controlling interest expense with a corresponding increase to non-controlling interest on the consolidated balance sheet.

<i>Exchangeable shares (\$ thousands, except share amounts)</i>	2009		2008	
	Number	Amount	Number	Amount
Balance, beginning of year	8,101,591	123,836	9,173,083	126,384
Exchanged for trust units	(3,640)	(56)	(1,071,492)	(15,172)
Exchanged for common shares	(8,097,951)	(123,780)	-	-
Non-controlling interest expense	-	-	-	12,624
Balance, end of year	-	-	8,101,591	123,836

The charge to net earnings in the prior year, 2008 of \$12.6 million represents the net earnings attributable to the exchangeable shares.

Net Earnings (Loss) and Comprehensive Income (Loss)

Net earnings and comprehensive income for the year decreased 175 percent to a net loss of \$72.6 million compared to net earnings of \$97.0 million for the same period in 2008 due to lower revenues as a result of lower commodity prices, as well as higher expenses as a result of the ProEx Acquisition. The basic and diluted net loss for the year was \$0.45 per share and for the same period in 2008 basic and diluted net earnings were \$1.20 and \$1.18 per share respectively.

Dividends

During 2009 the Company declared quarterly cash dividends \$0.10 per common share resulting in total dividends for the year of \$0.40 per share. On August 28, 2009 Progress implemented a dividend reinvestment plan ("DRIP") whereby common shareholders can elect to receive their dividend in shares. The number of shares issued is based on 95 percent of the average market price being the weighted average trading prices of the shares for the five consecutive trading days before the dividend payment date. In 2009, 105,914 shares were issued under the DRIP and on January 15, 2010 the Company issued 97,206 common shares in payment of \$1.3 million of dividends for shareholders that elected to participate in the DRIP for the fourth quarter dividend. For the year ended December 31, 2009 Progress has paid and or declared cash dividends of \$67.8 million which includes \$0.40 per common share for 2009, as well as \$1.7 million relating to accumulated distributions and dividends paid on performance units that vested during the period. Progress intends to pay quarterly dividends, however these dividends are not guaranteed.

Subsequent to year end the Board of Directors declared that the 2010 first quarter dividend will be maintained at \$0.10 per share. The dividend will be payable on April 15, 2010 to common shareholders of record as of March 31, 2010.

QUARTERLY FINANCIAL SUMMARY¹

(\$ thousands, except per share amounts)	Three Months Ended							
	Dec 31	Sept 30	June 30	Mar 31	Dec 31	Sept 30	June 30	Mar 31
	2009	2009	2009	2009	2008	2008	2008	2008
Petroleum and natural gas revenue	86,145	64,421	77,031	102,660	98,920	143,026	149,699	123,075
Net earnings (loss)	(20,075)	(26,877)	(20,915)	(4,694)	7,864	52,461	28,631	8,034
Per share basic ²	(0.12)	(0.16)	(0.13)	(0.03)	0.10	0.65	0.35	0.10
Per share diluted ²	(0.12)	(0.16)	(0.13)	(0.03)	0.10	0.60	0.35	0.10

(1) Petroleum and natural gas revenue for second quarter of 2008 increased due to higher commodity prices and higher production. Net earnings for the first quarter of 2008 included an unrealized loss on financial instruments of \$24.7 million due to strengthening future natural gas prices as compared to when the hedges were entered into. For the second quarter of 2008, commodity prices continued to strengthen which resulted in higher revenues and net earnings. For the third quarter of 2008, revenues decreased slightly due to lower commodity prices while net earnings included a \$57.0 million unrealized gain on financial instruments. Revenues and net earnings decreased in the fourth quarter of 2008 due to lower commodity prices which continued into the first, second and third quarters of 2009. On January 15, 2009, ProEx was acquired through a reverse takeover. The higher production in 2009 as a result of the ProEx Acquisition was offset by the impact of lower commodity prices. A net loss was realized for the first second and third quarters of 2009 due to lower revenues from lower commodity prices, as well as higher expenses as a result of the ProEx Acquisition. Revenues increased in the fourth quarter of 2009 as natural gas prices strengthened.

(2) The earnings per share amounts for 2008 have been adjusted to reflect the Reverse Takeover as if it had occurred at the beginning of each period.

SELECTED ANNUAL INFORMATION

<i>(\$ thousands, except per share amounts)</i>	2009	2008	2007
Petroleum and natural gas revenue	330,257	514,720	382,052
Net earnings (loss)	(72,561)	96,990	70,203
Per share basic ⁽¹⁾	(0.45)	1.20	0.87
Per share diluted ⁽²⁾	(0.45)	1.18	0.87
Total assets	2,458,390	1,560,976	1,563,078
Dividends declared	67,787	-	-
Distributions declared	-	121,817	114,142
Working capital deficiency	9,269	20,556	25,459
Bank debt	277,878	299,531	296,590
Convertible debentures	296,753	124,708	122,174
Total debt	583,900	444,795	444,223

- (1) Adjusted to reflect the common shares issued for Trust units and Exchangeable shares as if they were issued on January 1, 2009. For 2008 and 2007 only the common shares issued for Trust units are reflected as if they were issued on January 1, 2008 and 2007.
- (2) For the years ended December 31, 2008 and 2007 the common shares issued for the exchangeable shares and the performance units that vested as a result of the Arrangement are reflected in the weighted average diluted shares total. This is consistent with the reporting in 2008 and 2007 regarding non-controlling interest. An adjustment to the numerator of \$12.6 million and \$9.9 million respectively, is required in the diluted earnings per share calculation to provide for earning attributable to non-controlling interest in 2008 and 2007.

Distributions

On January 15, 2009, the Trust was liquidated and dissolved and the Company received all of the assets and assumed all of the liabilities of the Trust. Consequently, the Trust's final monthly distribution was for December 2008. Since January 2007, the Trust's monthly distribution had been \$0.10 per trust unit. Distributions for the year ended December 31, 2008 were \$121.8 million.

For the year ended December 31, 2008, cash flow from operating activities (after changes in non-cash working capital) of \$283.2 million exceeded cash distributions of \$121.8 million.

For the year ended December 31, 2008, cash distributions of \$121.8 million exceeded net earnings of \$97.0 million. Net earnings included significant non-cash charges which in 2008 were \$182.4 million that did not impact cash flow. Net earnings also included fluctuations in future income taxes due to changes in tax rates and tax rules. In addition, other non-cash charges such as DD&A were not a good proxy for the cost of maintaining the Trust's productive capacity given the natural declines associated with crude oil and natural gas assets. In these instances, where distributions exceed net earnings, a portion of the cash distribution paid to unitholders may have represented an economic return of the unitholders' capital.

For 2008, cash distributions and capital spending combined totaled \$281.1 million, which was \$2.2 million lower than the cash flow from operating activities (after changes in non-cash working capital) of \$283.2 million. In the crude oil and natural gas sector, because of the nature of reserve reporting, the natural reservoir declines and the risks involved in capital investment, it is not possible to distinguish between capital spent on maintaining productive capacity and capital spent on growth opportunities. Therefore, maintenance capital is not disclosed separately from development capital spending.

Capital Expenditures

The Company invested approximately \$190.0 million in total capital expenditures in 2009 compared to \$157.2 million in 2008. Exploration and development capital amounted to \$191.8 million in 2009, compared to \$158.3 million in 2008. The difference was due to higher spending on drilling and completions in 2009.

(\$ thousands)	2009	2008
Land acquisitions and retention	30,052	32,036
Geological and geophysical	2,810	4,837
Drilling and completions	136,042	93,941
Equipping and facilities	22,643	27,302
Corporate assets	222	183
Exploration and development capital	191,769	158,299
Net property acquisitions (dispositions)	(1,744)	(1,073)
Total capital expenditures	190,025	157,226

Progress drilled 52 gross wells (44.1 net) with an 89 percent success rate in 2009. Included in this drilling activity was 21 gross wells (17.3 net) drilled in the Deep Basin region of northwest Alberta, 25 gross wells (21.7 net) in the Foothills region of northeast British Columbia, and six gross wells (5.1 net) in central Alberta. Drilling in 2009 focused on the Montney formation in the Town area where a successful three well vertical program was followed up by a three well horizontal program, as well as drilling in the Deep Basin which focused on the Nikanassin formation. Throughout 2009, Progress made technical advancements on drilling and completion techniques and employed microseismic extensively to determine the most economic and efficient method for drilling and fracture stimulating the Montney formation in the Foothills.

The results in 2009 support the continued development of the Company's Montney opportunities and phase one of the development program, which commenced in late 2009 and early 2010, which includes four horizontal wells in the Town South area and a 25,000 mcf per day compressor and dehydration facility, with expansion capability to 50,000 mcf per day, scheduled to be on-stream in the second quarter of 2010. Progress will also focus on expanding its productive Montney fairway with five vertical delineation wells and five re-completions to be undertaken in the first quarter of 2010 targeting high potential areas where Progress has large contiguous land blocks, operatorship and control of area infrastructure. Three wells were completed and tested at Kobes, Gundy, and Caribou and have significantly expanded the areal extent of Progress' productive Montney fairway in the Foothills to the north, south and west of Town. Progress' 2010 capital program continues to expand the opportunities in the Deep Basin region building on the strong results from the Nikanassin formation.

The drilling credits now offered by the Alberta and BC governments (see "Royalties" above) help support a consistent pace of drilling activity. For wells subject to the new well incentives offered by the Alberta government, which provides a five percent royalty on the first year of production, the Company delayed the on-stream start-up of new wells until the first week of November when natural gas prices began to strengthen. The BC two percent royalty relief program applies to wells with spud dates between August 31, 2009 and July 1, 2010 and changes to its deep royalty credit program will take effect on wells with spud dates after August 31, 2009. As at December 31, 2009, Progress has earned approximately \$5.9 million in drilling credits under the Alberta program which have been recognized as a reduction to capital spending.

On January 15, 2009, the Company completed the Arrangement which resulted in the combination of ProEx and the Trust. Each Trust unitholder received 0.8125 of a common share for each trust unit held. The transaction has been accounted for as a reverse takeover whereby the Trust has been deemed the acquirer of ProEx. The total consideration of the reverse takeover was approximately \$663.5 million based on the notional issuance of 73,479,481 Trust units at \$9.26 per Trust unit using the weighted average trading price of the Trust for a period before and after the announcement date of November 17, 2008, adjusted for the effect of normal issue costs, and estimated transaction costs and other costs of \$10.3 million. The resulting charge to property, plant and equipment on the allocation of the purchase was \$967.1 million. The common shares issued upon completion of the Arrangement represent the non-cash

value of this transaction and are not included in the table above. Cash transaction costs incurred in 2009 of \$7.6 million have been disclosed separately on the consolidated statements of cash flows.

On June 26, 2008, Progress disposed of its Saskatchewan properties to Seaview Energy Inc. ("Seaview") for gross proceeds of \$28.3 million (\$26.7 million net of final closing adjustments and fees). The amount received included \$5.4 million of cash and 8,300,000 Class A common shares of Seaview valued at \$2.76 per share. The shares received represent the non-cash value of this transaction and are not included in the table above.

During the year ended December 31, 2009 Progress acquired over 100,000 acres of undeveloped land through crown land sales and through property acquisitions and swaps in established fairways in the Foothills and Deep Basin regions. The Company also acquired approximately 525,000 acres of undeveloped land through the Arrangement.

Undeveloped Land

Undeveloped land at December 31, 2009 increased 97 percent to 1,116,000 net acres compared to 567,000 net acres at December 31, 2008 primarily due to the ProEx Acquisition which added approximately 525,000 acres of undeveloped land. During 2009 the Company added approximately 110,000 net acres of undeveloped land through Crown land sales and 28,000 through property acquisitions. During 2008, the Company had acquired approximately 132,000 net acres of undeveloped land through Crown land sales and approximately 16,000 net acres through property acquisitions.

<i>(acres)</i>	2009 Gross	2009 Net	2008 Gross	2008 Net
Alberta	372,000	310,000	403,000	317,000
British Columbia	942,000	806,000	785,000	250,000
Total undeveloped land	1,314,000	1,116,000	1,188,000	567,000

Over the next 12 months approximately 176,000 net acres or 16 percent of Progress' undeveloped land will be subject to expiry. The Company has an active capital program to minimize undeveloped land expiries and programs to farm-out expiring lands which would not be continued in our core or non-core areas will be pursued.

Goodwill

The goodwill balance of \$414.7 million was primarily the result of the acquisition of Cequel Energy Inc. in 2004. In accordance with Canadian GAAP, goodwill is not amortized but is subject to an impairment test. Goodwill may be tested for impairment between annual tests in certain situations.

For these purposes, the fair value of goodwill is determined as the fair value of the Company as a whole less the fair value of the Company's identifiable assets and liabilities. A write-down of the carrying value of goodwill may be required if the fair value of the identifiable assets, less the fair value of liabilities, exceed the value of the Company, being primarily the value of its oil and natural gas reserves. Fair value was determined using a net asset value based approach using the December 31, 2009 reserve valuations, as well as estimates of the fair value of other assets less the Company's liabilities. There was no impairment of goodwill as a result of the tests conducted at December 31, 2009 and 2008.

Liquidity and Capital Resources

<i>(\$ thousands except per share amounts)</i>	2009	2008
Working capital deficiency	9,269	20,556
Bank debt	277,878	299,531
Convertible debentures	296,753	124,708
Total debt	583,900	444,795
Shares outstanding (thousands)	165,284	112,797
Market price per share, end of year	14.15	8.95
Market value of shares	2,338,769	1,009,533

At December 31, 2009 the Company had \$277.9 million outstanding on its credit facility of \$650.0 million, as well as \$296.8 million for the debt portion of the Debentures and a working capital deficiency of \$9.3 million, resulting in \$583.9 million of total debt.

The Company has extendible revolving term credit facilities in the amount of \$650 million from a syndicate of lenders. The borrowing base under the facilities is currently \$650 million and is subject to periodic re-determination by the lenders, the next renewal to occur on March 31, 2010. If renewed on March 31, 2010 the facilities will be available on a revolving basis until March 30, 2011, subject to extension at the lenders' discretion for successive 364 day periods. If an extension is not provided, the facilities will be available on a non-revolving basis for the following year and all amounts outstanding thereunder must be repaid in full at the end of such year. The facilities bear interest at a rate based on bankers acceptance rates (or LIBOR, for US dollar borrowings) plus a specified margin, which margin varies based on the Company's debt to cash flow ratio. The facilities contain customary restrictions on the incurrence of additional indebtedness, the disposition of assets and the granting of security. The facilities also contain customary events of default, including if a change of control has occurred in respect of the Company, which could occur: (a) if a person or persons acting jointly or in concert, acquired more than 30 percent of the outstanding voting securities of the Company; or (b) if 50 percent or more of the consolidated reserves of the Company and its subsidiaries were sold or otherwise disposed of to another person. The Company is restricted from making distributions (including the declaration of dividends) if it is in default under the facilities (or a default would reasonably be expected to occur as a result of such distribution) or if its outstanding borrowings exceed its borrowing threshold. As with previous credit facilities, the amount of the facilities is subject to a borrowing base review performed on a periodic basis by the lenders, based primarily on reserves and using commodity prices estimated by the lenders, as well as other factors. A decrease in the borrowing base could result in a reduction to the credit facilities which may require a repayment to the lenders over the following 12 month period. The last borrowing base review was performed in the fourth quarter of 2009 using the Company's reserves and updated prices determined by the lenders. As a result, there was no change to the current credit facility. The facility is secured by a \$1.5 billion fixed and floating charge debenture on the assets of the Company. The renewal is scheduled for March 31, 2010 and the next semi-annual borrowing base review will be in September 2010.

Bank debt of \$277.9 million as at December 31, 2009 was \$21.7 million lower than December 31, 2008 bank debt of \$299.5 million due to the \$200 million principal amount (\$191.6 million net of issues costs) of 5.25 percent debentures issued on October 23, 2009 which together with a common share financing completed in February 2009 for net proceeds of \$133.8 million more than offset the \$163.2 million of bank debt assumed on the ProEx Acquisition, as well as capital spending during the year net of cash flow. On February 18, 2009 the Company completed a bought deal financing whereby the Company issued 12,950,000 common shares at a price of \$10.85 per share for aggregate gross proceeds of \$140.5 million (\$133.8 million, net of issue costs of approximately \$6.7 million). The working capital deficiency decreased from \$20.5 million as at December 31, 2008 to \$9.3 million as at December 31, 2009 due to slightly higher accounts receivable as a result of higher production and reduced accounts payable and accrued liabilities at the end of the year due to the timing of capital expenditures.

On October 23, 2009, Progress issued \$200.0 million principal amount of 5.25 percent convertible unsecured subordinated debentures (the "5.25 percent debentures"). Interest on the 5.25 percent debentures is payable in equal instalments semi-annually in arrears on April 30 and October 31 in each year commencing April 30, 2010. The 5.25 percent debentures will mature on October 31, 2014. Each debenture may be converted into common shares at the option of the holder at a conversion price of \$18.00 per common share. After October 31, 2012, the Company may redeem the 5.25 percent debentures in whole or in part provided the common shares weighted average trading price during a specified period prior to redemption is at least 125 percent of the conversion price. The Company may satisfy

the payment of principal or interest in common shares under certain circumstances. The net proceeds received of approximately \$191.6 million was used to reduce outstanding bank debt.

As at December 31, 2009 the Company also had outstanding \$55.7 million principal amount of the 6.75 percent debentures and \$75.0 million principal amount of the 6.25 percent debentures for a combined total of \$130.7 million. The 6.75 percent and 6.25 percent debentures pay interest semi-annually and are convertible at the option of the holder at any time into fully paid common shares at a conversion price of \$18.46 per common share and \$24.00 per common share, respectively. The 6.75 percent debentures mature on June 30, 2010 and the 6.25 percent debentures mature September 30, 2011 at which time they are due and payable. Progress may elect to satisfy the interest and principal obligations by the issuance of common shares. The net proceeds were used to reduce outstanding bank indebtedness.

The Debentures have been classified as debt net of the fair value of the conversion feature which has been classified as part of shareholders' equity and net of issue costs. At December 31, 2009 the debt portion was \$296.8 million, net of unamortized issue costs. Issue costs are amortized over the term of the Debentures and the debt portion will accrete up to the principal balance at maturity. The accretion, amortization of issue costs and the interest paid are expensed with interest and financing expense on the consolidated statements of earnings.

The following table outlines the Debenture activity for the years ended December 31, 2009 and 2008:

	2009				2008			
(\$ thousands)	6.75%	6.25%	5.25%	Total	6.75%	6.25%	5.25%	Total
Principal, beginning of year ⁽¹⁾	55,667	75,000	-	130,667	55,727	75,000	-	130,727
Issued	-	-	200,000	200,000	-	-	-	-
Converted to Shares	-	-	-	-	(60)	-	-	(60)
Principal, end of year	55,667	75,000	200,000	330,667	55,667	75,000	-	130,667
Debt portion, beginning of year ⁽¹⁾	54,196	70,512	-	124,708	53,274	68,900	-	122,174
Issued	-	-	168,308	168,308	-	-	-	-
Accretion	518	971	826	2,315	514	962	-	1,476
Amortization of issue costs	466	649	307	1,422	465	650	-	1,115
Conversions to Shares ⁽²⁾	-	-	-	-	(57)	-	-	(57)
Debt portion, end of year	55,180	72,132	169,441	296,753	54,196	70,512	-	124,708
Equity portion, beginning of year ⁽¹⁾	2,753	4,946	-	7,699	2,756	4,946	-	7,702
Issued	-	-	23,311	23,311	-	-	-	-
Conversions to Shares	-	-	-	-	(3)	-	-	(3)
Equity portion, end of year	2,753	4,946	23,311	31,010	2,753	4,946	-	7,699

(1) The 6.75 percent debentures were issued February 2, 2005, the 6.25 percent debentures were issued August 22, 2006, and the 5.25 percent debentures were issued October 23, 2009.

(2) Net of unamortized issue costs.

Current economic conditions

Progress continued to have access to both debt and equity markets in 2009 in spite of the current economic conditions and financial market volatility. Progress entered into a \$650 million extendible revolving term credit facility in conjunction with the Arrangement. As noted above on February 18, 2009, Progress issued 12,950,000 common shares at a price of \$10.85 per share for net proceeds of \$133.8 million which were used to repay a portion of the outstanding bank indebtedness thereby freeing up borrowing capacity to fund a portion of the 2009 capital program. During the fourth quarter of 2009, the Company issued \$200.0 million principal amount of 5.25 percent debentures as described above. Subsequent to December 31, 2009 Progress has entered into a \$350 million subscription receipt private placement with the CPPIB and a concurrent \$250 million subscription receipt bought-deal financing through a syndicate of underwriters to fund the Foothills Acquisition and a portion of the Company's 2010 capital investment program. Each subscription receipt represents the right to receive one common share of Progress, without the payment of any additional consideration, on the closing of the Foothills Acquisition.

The Company's investing activities for the year ended December 31, 2009 consisted of expenditures on its capital program as well as the Arrangement. Management anticipates that the Company will continue to have adequate

liquidity to fund budgeted capital investments through a combination of cash flow, equity and debt. Cash flow used to finance these commitments may reduce the amount of dividends paid to shareholders as dividends are not guaranteed.

Outstanding as at February 19, 2010 were the following:

	Shares outstanding or issuable
Common shares	165,381,418
Convertible debentures	17,251,658
Stock options	5,868,533
Restricted Unit Awards	93,259
Performance Unit Awards	258,450
Performance units from the Trust	716,418
LTI component from the Trust	98,424

As a result of the financing in relation to the Foothills Acquisition, there will be 47,630,000 subscription receipts outstanding which represent a right to receive 47,630,000 common shares upon the closing of the Foothills Acquisition expected on or about March 31, 2010.

Off Balance Sheet Arrangements

The Company had no guarantees or off-balance sheet arrangements except for certain lease agreements and letters of credit. The Company had certain lease agreements that were entered into in the normal course of operations. All leases are treated as operating leases whereby the lease payments are included in operating expenses or G&A expenses depending on the nature of the lease. No asset or liability value has been assigned to these leases on the balance sheet as at December 31, 2009. The total future obligation from these operating leases is described below in the section "Contractual Obligations and Commitments".

Letters of credit of approximately \$1.4 million as at December 31, 2009 (2008 – \$1.9 million) had been issued in the normal course of business mainly for contract firm transportation.

Shareholders' Equity

At December 31, 2009, there were 165.3 million common shares outstanding, compared to 99.8 million trust units outstanding at December 31, 2008. The increase was primarily due to the Arrangement, the February 2009 common share financing and share based compensation paid during the year.

Contractual Obligations and Commitments

The Company contracted for firm transportation on the TransCanada and Atco systems in Alberta and the Spectra Energy system in BC. The Company also had an office lease commitment that extends to 2013. The annual cost of this lease commitment, which include rent and operating expenses, amount to approximately \$2.3 million.

The Company must pay crown royalty, surface rentals, mineral taxes and abandonment and reclamation costs with respect to its ongoing ownership of hydrocarbon production rights. The amounts paid with respect to these burdens depend on the future ownership, production, prices and legislative environment at the time.

(\$ thousands)	Total	Minimum Annual Commitment				
		2010	2011	2012	2013	2014
Bank debt ⁽¹⁾	277,878	-	277,878	-	-	-
Convertible debentures	330,667	55,667	75,000	-	-	200,000
Pipeline commitments	66,722	34,343	24,416	5,227	2,028	708
Farm-in commitments	11,950	11,950	-	-	-	-
Drilling rig commitments	2,829	2,829	-	-	-	-
Financial instrument premiums	4,077	1,647	2,430	-	-	-
Office lease	7,412	2,120	2,268	2,268	756	-
Total	701,535	108,556	381,992	7,495	2,784	200,708

(1) Based on the existing terms of the \$650 million revolving credit facility which is subject to renewal on or before March 31, 2010. If not extended, the facilities would be available on a non-revolving basis for a 364 day period at which time the facilities would be due and payable.

FOURTH QUARTER ANALYSIS

	Q4 2009	Q3 2009	Q4 2008
OPERATIONAL HIGHLIGHTS			
Daily Production			
Natural gas (<i>mcf/d</i>)	161,497	157,522	124,342
Crude oil (<i>bbls/d</i>)	1,882	1,874	1,762
Natural gas liquids (<i>bbls/d</i>)	2,592	1,995	1,748
Total daily production (<i>boe/d</i>)	31,390	30,122	24,233
Average Benchmark Prices			
Natural gas - AECO (daily) (<i>\$/gj</i>)	4.26	2.78	6.34
Natural gas - AECO (monthly) (<i>\$/gj</i>)	4.01	2.87	6.43
Natural gas - Station #2 (daily) (<i>\$/gj</i>)	4.23	2.75	6.32
Crude oil - WTI (<i>US\$/bbl</i>)	76.19	68.30	58.73
Crude oil - Edmonton par price (<i>Cdn\$/bbl</i>)	76.60	71.58	63.24
Exchange rate (<i>US\$/Cdn\$</i>)	1.0563	1.0974	1.2125
Average Realized Prices			
Natural gas - (<i>\$/mcf</i>)	4.21	3.10	7.14
Crude oil (<i>\$/bbl</i>)	71.06	69.66	57.40
Natural gas liquids (<i>\$/bbl</i>)	49.15	41.46	49.63
FINANCIAL HIGHLIGHTS			
(\$ thousands, except per share amounts)			
Petroleum and natural gas revenue	86,145	64,421	98,919
Royalties	(12,171)	(6,145)	(18,988)
Realized gain (loss) on financial instruments	(171)	1,142	7,726
Operating expenses	(18,803)	(19,219)	(15,017)
Transportation expenses	(9,207)	(9,146)	(4,686)
General and administrative expenses	(3,285)	(3,185)	(2,619)
Stock based compensation expense	(2,846)	(2,538)	(2,094)
Depletion, depreciation and accretion expense	(57,862)	(52,614)	(35,667)
Net earnings (loss)	(20,075)	(26,877)	7,864
Per share basic	(0.12)	(0.16)	0.08
Per share diluted	(0.12)	(0.16)	0.08
Exploration and development capital	49,512	32,445	47,180
Net property acquisitions (dispositions)	(1,546)	(403)	2,856
Total capital expenditures	47,966	32,042	50,036

Production

Average production during the fourth quarter of 2009 (the "Quarter") of 31,390 boe per day was higher than both the third quarter of 2009 of 30,122 boe per day and the fourth quarter of 2008 at 24,233 boe per day. The increase from the third quarter of 2009 was due to shut-in production and delayed start-up of new production from wells drilled during the year being brought on stream in the beginning of November. The increase over the fourth quarter of 2008 was a result of the ProEx Acquisition.

Revenue

Petroleum and natural gas revenue for the Quarter of \$86.1 million was 34 percent higher than the third quarter of 2009 of \$64.4 million due to increased production and higher crude oil and natural gas prices. Revenue was lower than the fourth quarter of 2008 of \$98.9 million as lower commodity prices more than offset the increase in production as a result of the ProEx Acquisition.

Royalties

Royalties for the Quarter of \$12.2 million were 98 percent higher than the third quarter of 2009 of \$6.1 million due to higher revenues and was 36 percent lower than the fourth quarter of 2008 of \$19.0 million due mainly to lower commodity prices in the Quarter. The average royalty rate for the Quarter of 14.1 percent was higher than the third quarter of 2009 of 9.5 percent due to higher commodity prices and was lower than the fourth quarter of 2008 of 19.2 percent due to lower commodity prices.

Operating Expenses

Operating expenses for the Quarter of \$18.8 million were consistent with the third quarter of 2009 of \$19.2 million and 25 percent higher than the fourth quarter of 2008 of \$15.0 million due to the increase in production as a result of the ProEx Acquisition. As a result, operating expenses during the Quarter averaged \$6.51 per boe compared to \$6.94 per boe during the third quarter of 2009 and \$6.74 per boe during the fourth quarter of 2008.

Transportation Expenses

Transportation expenses for the Quarter of \$9.2 million were consistent with the third quarter of 2009 of \$9.1 million and 96 percent higher than the fourth quarter of 2008 of \$4.7 million. The increase over the fourth quarter of 2008 is a result of the ProEx Acquisition. Transportation expenses during the Quarter averaged \$3.19 per boe compared to \$3.30 per boe during the third quarter of 2009 and \$2.10 per boe during the fourth quarter of 2008. The increase from the fourth quarter of 2008 is due to the ProEx Acquisition assets having a higher transportation charge on its production as all of its production is in BC where producers pay an all-in charge for regulated gathering, processing and transmission fees enabling producers to avoid facility construction. This all-in charge is included in transportation expenses.

General and Administrative Expenses

G&A expenses for the Quarter of \$3.3 million were consistent with the third quarter of 2009 of \$3.2 million and were 25 percent higher than the fourth quarter of 2008 of \$2.6 million due to the ProEx Acquisition and related termination of the Technical Services Agreement. G&A expenses averaged \$1.14 per boe during the Quarter compared to \$1.15 in the third quarter of 2009 and \$1.17 during the fourth quarter of 2008.

Depletion, Depreciation and Accretion

DD&A expense for the Quarter of \$57.9 million was slightly higher than the third quarter of 2009 of \$52.6 million. It was 62 percent higher than the fourth quarter of 2008 of \$35.7 million as a result of the ProEx Acquisition. This resulted in DD&A of \$20.04 per boe for the Quarter compared to \$18.99 per boe for the third quarter of 2009 and \$16.00 for the fourth quarter of 2008.

Future Income Taxes

The provision for future income taxes in the Quarter resulted in a recovery of \$5.3 million compared to a recovery for the third quarter of 2009 of \$7.7 million and a recovery for the fourth quarter of 2008 of \$4.3 million. The difference from the third quarter of 2009 was due to a lower pre-tax loss for the Quarter as a result of higher production and commodity prices.

Net Earnings

Net loss for the Quarter was \$20.1 million compared to a loss of \$26.9 million for the third quarter of 2009 and net earnings of \$7.9 million for the fourth quarter of 2008. The decrease in net loss from the third quarter of 2009 was due to both increased production and higher commodity prices.

Capital Expenditures

During the Quarter, the Company incurred \$48.0 million of capital expenditures comprised of \$11.1 million in land acquisition and retention, \$32.1 million in drilling and completions, \$0.4 million in geological and geophysical and \$5.9 million in facility construction. This was partially offset by \$1.5 million in property dispositions. During the Quarter the Company drilled 12 gross wells (9.1 net) with two gross wells (2.0 net) drilled in the northeast British Columbia Foothills, six gross wells (4.1 net) drilled in the Deep Basin of northwest Alberta and four gross wells (3.0 net) drilled in central Alberta.

Total capital investment during the Quarter was \$48.0 million compared to \$32.0 million in the third quarter of 2009 and \$50.0 million in the fourth quarter of 2008.

ENVIRONMENT, HEALTH AND SAFETY

Progress places a high priority on preserving the quality of its environment and protecting the health and safety of its employees, contractors and the public in communities in which it lives and works. Progress actively participated in industry-recognized programs at the highest possible levels in an effort to support continuous improvement. In this regard, Progress:

- Maintained a Platinum membership in the Environment, Health and Safety Stewardship Program developed by the Canadian Association of Petroleum Producers. Progress' participation requires its commitment to continuous improvement in its environment, health and safety management practices including sound planning and implementation, open communication, demonstrated performance and a thorough external audit of its activities every 3 years.
- Implemented an online safety orientation training system, developed and implemented new resource road guidelines, conducted emergency response preparedness drills and continues to develop its site specific work procedures and social responsibility policies.
- Maintained an active site abandonment and reclamation program which has resulted in six reclamation certificates being received in 2009, 30 Phase I, 15 Phase II and 70 detailed site assessments being completed with 52 sites ready for reclamation certification applications in 2010.
- Developed a fugitive emissions strategy and is moving forward with full implementation across all operations.

Progress continually works to improve its health and safety performance through increased awareness in the field by frequently communicating safety responsibilities to its employees and contractors and by issuing and sharing safety information. Health and safety is increasingly more visible in the field and Progress has become more active with contractor safety management through industry committee participation and the promotion of industry recognized best practices.

In 2009, Progress' overall health and safety performance improved compared to 2008. There was no employee lost time incidents in 2009 or 2008. There were a total of six recorded injury incidents in 2009 compared to fifteen in 2008. Progress' contractors had four lost-time incidents in 2008 and 2009.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the consolidated financial statements in accordance with Canadian GAAP requires Management to make judgments and estimates that affect the financial results of the Company. Progress' Management reviews its estimates regularly, but new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates. A summary of significant accounting policies are presented in Note 3 to the consolidated financial statements. The critical estimates are discussed below:

Petroleum and Natural Gas Reserves

All of Progress' petroleum and natural gas reserves are evaluated and reported on by independent petroleum engineering consultants in accordance with Canadian Securities Administrators' National Instrument 51-101 ("NI 51-101"). The evaluation of reserves is a subjective process. Forecasts are based on engineering data, projected future rates of production, commodity prices and the timing of future expenditures, all of which are subject to numerous uncertainties and various interpretations. The Company expects that its estimates of reserves will change to reflect updated information. Reserve estimates can be revised upward or downward based on the results of future drilling, testing, production levels and changes in costs and commodity prices.

Depletion Expense

The Company uses the full cost method of accounting for exploration and development activities whereby all costs associated with these activities are capitalized, whether successful or not. The aggregate of capitalized costs, net of certain costs related to unproved properties, and estimated future development costs is amortized using the unit-of-production method based on estimated proved reserves. Changes in estimated proved reserves or future development costs have a direct impact on depletion expense.

Certain costs related to unproved properties and major development projects may be excluded from costs subject to depletion until proved reserves have been determined or their value is impaired. These properties are reviewed quarterly to determine if proved reserves should be assigned, at which point they would be included in the depletion calculation, or for impairment, for which any write-down would be charged to depletion and depreciation expense.

Full Cost Accounting Ceiling Test

The carrying value of property, plant and equipment is reviewed at least annually for impairment. Impairment occurs when the carrying value of the assets is not recoverable by the future undiscounted cash flows. The cost recovery ceiling test is based on estimates of proved reserves, production rates, petroleum and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material. Any impairment would be charged as additional depletion expense.

Asset Retirement Obligations

The asset retirement obligations is estimated based on existing laws, contracts or other policies. The fair value of the obligation is based on estimated future costs for abandonments and reclamations discounted at a credit adjusted risk free rate. The liability is adjusted each reporting period to reflect the passage of time, with the accretion charged to earnings and for revisions to the estimated future cash flows. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material.

Income Taxes

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded.

CHANGE IN ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS

Convergence with International Reporting Standards

On January 1, 2011 International Financial Reporting Standards (“IFRS”) will become the generally accepted accounting principles in Canada. The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by Progress for the year ended December 31, 2010, including the opening balance sheet as at January 1, 2010. Throughout 2009 the Company has assessed the impact of adopting IFRS and is continuing to implement plans for transition. The project is being managed by an in-house team of accounting professionals who have engaged in IFRS educational programs and continue to develop the Company’s adoption to IFRS. The Company’s auditors will be involved throughout the process to ensure the Company’s policies are in accordance with these new standards.

Management has not yet finalized its accounting policies and as such is unable to quantify the impact on the financial statements of adopting IFRS. In addition, due to anticipated changes to IFRS and International Accounting Standards prior to Progress’ adoption of IFRS, Management’s plan is subject to change based on new facts and circumstances that arise after the date of the MD&A.

In July 2009 an amendment to IFRS 1 First Time Adoption of International Reporting Standards was issued that applies to oil and gas assets. The amendment allows an entity that used full cost accounting under its previous GAAP to elect, at its time of adoption, to measure exploration and evaluation assets at the amount determined under the entity’s previous GAAP and to measure oil and gas assets in the development and production phases by allocating the amount determined under the entity’s previous GAAP for those assets to the underlying assets pro rata using reserve volumes or reserve values as of that date. Progress currently anticipates that it will use this exemption. IFRS 1 also provides a number of other optional exemptions and mandatory exceptions in certain areas to the general requirement for full retrospective application. Management is analyzing the various accounting policy choices available and will implement those determined to be the most appropriate for the Company which other than the full cost accounting exemption noted above are:

Business Combinations – IFRS 1 would allow Progress to use the IFRS rules for business combinations on a prospective basis rather than re-stating all business combinations.

Share-based payments – IFRS 1 allows Progress an exemption on IFRS 2, “Share-Based Payments” to equity instruments which vested before Progress’ transition date to IFRS.

The transition from Canadian GAAP to IFRS is significant and may materially affect our reported financial position and results of operations. At this time, Progress has identified key differences that will impact the financial statements as follows:

- Exploration and Evaluation (“E&E”) expenditures – On transition to IFRS Progress will re-classify all E&E expenditures that are currently included in the PP&E balance on the Consolidated Balance Sheet. This will consist of the book value of undeveloped land that relates to exploration properties. E&E assets will not be depleted and must be assessed for impairment when indicators of impairment exist.
- Depletion expense – On transition to IFRS Progress has the option to base the depletion calculation using either proved reserves or proved and probable reserves. Progress has not concluded at this time which method it will use.
- Impairment of PP&E assets – Under IFRS, impairment tests of PP&E must be performed on specific portions of PP&E as opposed to the entire PP&E balance which is currently required under Canadian GAAP through the full cost ceiling test. Impairment calculations will be performed at the cash generating unit level using either total proved or proved plus probably reserves.
- Due to the recent withdrawal of the exposure draft on IAS 12 Income Taxes in November 2009 and the issuance of the exposure draft on IAS 37 Provisions, Contingent Liabilities and Contingent Assets in January 2010, Management is still determining the impact of these revised standards on its IFRS transition.

In regards to internal controls over financial reporting (“ICOFR”), Progress will be determining which additional changes to ICOFR will be required to deal with the changes in accounting policies. This will be ongoing through 2010

to ensure all changes in accounting policies include appropriate additional controls and procedures for future IFRS reporting requirements.

In regards to disclosure controls and procedures, Progress will be assessing stakeholders' information requirements and ensure that appropriate and timely information is provided once available.

The Company is currently testing updates to its systems in regards to IFRS, which primarily involved updates to its accounting system. The modifications were not significant, however, they will allow the Company to report both Canadian GAAP and IFRS statements and track E&E costs, transfers from E&E to PP&E and allocation of PP&E into cash generating units.

The Company will have an opening January 1, 2010 balance sheet, which is in accordance with IFRS. The Company will maintain both Canadian GAAP and IFRS compliant financial statements in 2010.

Business Combinations

The accounting standard section 1582 "Business Combinations" was issued (the "new standard") and replaced the previous business combinations standard (the "current standard"). The new standard applies prospectively to business combinations on or after January 1, 2011 with earlier adoption permitted. Under this standard, the purchase price used in a business combination is based on the fair value of shares exchanged at the market price at the acquisition or closing date. Under the current standard, the purchase price used is based on the market price of the shares for a reasonable period before and after the date the acquisition is announced. In addition, the new standard requires all acquisition costs to be expensed while the current standard allows for the capitalization of these costs as part of the purchase price. The new standard also addresses contingent liabilities, which will be required to be recognized at fair value on acquisition and subsequently remeasured at each reporting period until settled. The current standard requires only contingent liabilities that are payable to be recognized. The new standard requires negative goodwill to be recognized in earnings rather than the current standard of deducting from non-current assets in the purchase price allocation. Progress is currently assessing the impact of the standard. The adoption of section 1582 will also require the adoption of sections 1601 "Consolidated Financial Statements" and 1602 "Non-controlling interests". Progress is currently assessing the impact of the standard.

Consolidated Financial Statements and Non-Controlling Interests

In 2009 two new standards, 1601, Consolidated Financial Statements and 1602, Non-Controlling Interests, were issued which replace the existing guidance under section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective for business combinations occurring on or after January 1, 2011, with early application permitted. Progress is currently assessing the impact of the standard.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to the Company's Management as appropriate to allow timely decisions regarding required disclosures. The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by the annual filings, that the Company's internal controls over financial reporting ("ICOFR") are effective to provide reasonable assurance that material information related to the issuer, is made known to them by others within the Company.

Management has assessed the effectiveness of the Company's internal control over financial reporting as defined by Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings. The assessment was based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations. Management concluded that the Company's internal control over financial reporting was effective as of December 31, 2009. No changes were made to the Company's internal control over financial reporting during the year ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

It should be noted that while the Company's Management including the Chief Executive Officer and Chief Financial Officer believe that the Company's internal controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that these controls will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

RISK FACTORS AND RISK MANAGEMENT

Investors that purchase shares are participating in the net cash flow from a portfolio of natural gas and crude oil producing properties. As such, the cash flow paid to investors and the value of the Company's shares is subject to numerous risk factors. Some of the risks are common to all businesses while many are associated with the oil and gas industry. The following information is only a summary of certain risk factors which could affect the Company's future results:

Global Financial Crisis

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, have caused significant volatility to commodity prices. These conditions worsened in 2008 and continued in 2009, causing a loss of confidence in the broader US and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate. These factors have negatively impacted company valuations and will impact the performance of the global economy going forward.

Petroleum prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and demand of these commodities due to the current state of the world economies, OPEC actions and the ongoing global credit and liquidity concerns.

The Company has extendible revolving term credit facilities in the amount of \$650 million from a syndicate of banks (refer to "Liquidity and Capital Resources" above). The Company also has access to capital markets as evidenced in its subscription receipt financings in conjunction with the Foothills Acquisition. The Company has set its 2010 budget in accordance with current commodity prices.

Commodity Price Risk

The Company's results of operations and financial condition are dependent on prices received for the production of natural gas and crude oil. With the Company's production heavily weighted to natural gas, changes to natural gas prices have the most material effect on its cash flow. Prices for natural gas and crude oil have fluctuated significantly during recent years and are determined by supply and demand factors, including weather and general economic conditions, as well as conditions in other oil producing regions, which are beyond the control of the Company. Prices received from production in Canada also reflect changes in the Canadian/US currency exchange rate. Any decline in the prices for natural gas and crude oil could have a material adverse effect on the Company's operations, financial condition and the level of capital expenditures provided for the development of its natural gas and crude oil reserves.

The Company uses financial derivative instruments in an effort to limit a portion of the potential adverse effects resulting from volatility in natural gas and crude oil commodity prices, while retaining exposure to upside price movements. The Company's hedging activities are conducted pursuant to the Company's Risk Management Policy approved by the Board of Directors. To the extent commodity price exposure is hedged, the benefits that would otherwise be experienced if commodity prices were to increase would be foregone.

Credit Facility Risk

At the option of the Company, the lenders will review the facilities each year, the next being March 31, 2010 and determine if they will extend for a further 364 day period. The borrowing base under the facilities is currently \$650 million. If renewed on March 31, 2010 the facilities will be available on a revolving basis until March 30, 2011,

subject to extension at the lenders' discretion for successive 364 day periods. If an extension is not provided, the facilities will be available on a non-revolving basis for the following year and all amounts outstanding thereunder must be repaid in full at the end of such year. There is a risk that the facilities will not be renewed for the same amount or on the same terms. Any of these events could affect the Company's ability to fund ongoing operations.

The facilities are "borrowing base" facilities, meaning that the amount of available credit is dependent in part on the reserves attributable to the Company's assets. A sustained material decline in prices of oil and natural gas could materially reduce the Company's borrowing base, thereby reducing the bank credit available to the Company and possibly causing a portion of such bank debt to be required to be repaid. The borrowing base is generally re-determined by the lenders semi-annually and upon the acquisition or disposition of assets beyond certain defined limits. The renewal is expected on March 31, 2010.

The \$650 million credit facilities were reviewed in October, 2009 based on recent reserves and commodity price information at the time. Subsequent to December 31, 2009 Progress has entered into a \$350 million subscription receipt private placement with the CPPIB and a concurrent \$250 million subscription receipt bought-deal financing through a syndicate of underwriters to fund the Foothills Acquisition and a portion of the Company's 2010 capital investment program. The additional proceeds above the Foothills Acquisition price will initially be used to repay a portion of the outstanding credit facilities thereby freeing up borrowing capacity to fund a portion of the 2010 capital investment program. Each subscription receipt represents the right to receive one common share of Progress, without the payment of any additional consideration, on the closing of the Foothills Acquisition (see "Liquidity and Capital Resources" above).

Operational Matters

The ownership and operation of oil and natural gas wells, pipelines and facilities involves a number of operating and natural hazards which may result in blowouts, environmental damage and other unexpected or dangerous conditions resulting in damage to the Company's natural gas and oil properties and assets, as well as possible liability to third parties. The Company may become liable for damages arising from such events against which it cannot insure or against which it may elect not to insure because of high premium costs or other reasons. Costs incurred to repair such damage or pay such liabilities will reduce the cash flow of the Company.

The Company employs prudent risk management practices and maintains suitable liability insurance, where available. Business interruption insurance is also purchased for selected facilities, to the extent that such insurance is reasonably available.

Reserve Estimates

Estimates of economically recoverable natural gas and crude oil reserves (including natural gas liquids) and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as commodity prices, projected production from the properties, the assumed effects of regulation by government agencies and future operating expenses. All of these estimates may vary from actual results. Estimates of the recoverable natural gas and crude oil reserves attributable to any particular group of properties, classifications of such reserves based on risk of recovery and estimates of future net revenues expected therefrom, may vary. The Company's actual production, revenues, taxes, development and operating expenditures with respect to its reserves may vary from such estimates, and such variances could be material.

Each year, a firm of independent engineers evaluates a significant portion of proved and probable reserves. At December 31, 2009, 100 percent of the reserves of Progress were evaluated by GLJ.

Exploration and Development Risks

Oil and gas exploration and development requires manpower and capital to generate, develop and test exploration concepts. The eventual testing of a concept will not necessarily result in the discovery of economical reserves.

The Company attempts to minimize the risk of developing existing and new reserves by ensuring that: (a) the majority of prospects have multi-zone potential (b) activity is focused in core regions where expertise and experience is greatest (c) the number of wells drilled is large enough to increase the probability of statistical success rates (d) geophysical techniques are utilized where appropriate (e) by focusing its activities in core regions and major play

types, allowing it to leverage off its experience and knowledge in these areas further aiding efficiencies and (f) farm-outs are entered into to minimize risk on plays it considers higher risk.

Access to Capital Markets

The cash flow from operations from the Company's reserves may not be sufficient to fund its ongoing activities at all times. From time to time, the Company may require additional financing in order to carry out its oil and gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause the Company to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate operations. If the revenues from the Company's reserves decrease as a result of lower oil and natural gas prices or otherwise, it will effect its ability to expend the necessary capital to replace its reserves or to maintain its production. If cash generated from operations is not sufficient to satisfy capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or available on terms acceptable. Neither its articles nor by-laws limit the amount of indebtedness that the Company may incur. The level of indebtedness from time to time could impair its ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise. In addition, cash flow is influenced by factors which the Company cannot control, such as commodity prices, the US/Canadian exchange rate, interest rates and changes to existing government regulations and tax policies. Should circumstances affect cash flow from operations in a detrimental way, the Company would respond by increasing debt to within the Company's self-imposed debt guideline and/or reducing capital expenditures.

The Company relies on various sources of funding to support its growing capital expenditure program, including:

- *Internally generated cash flow from operations provides the minimum level of funding on which the Company's annual capital expenditures program is based.*
- *Debt may be utilized to expand capital programs when deemed appropriate.*
- *New equity, if available and on favorable terms, may be utilized to expand exploration programs and fund acquisitions.*

The Company's shares are listed on the TSX and the Company maintains an active investor relations program designed to facilitate access to the equity capital markets. The Company also maintains a prudent capital structure by retaining a portion of its net cash flow for debt repayment when appropriate, managing capital expenditures within rate of return risk parameters and by utilizing equity markets.

Regulatory Risk

There can be no assurance that government royalties, income tax laws, environmental laws and regulatory requirements relating to the oil and gas industry will not be changed in a manner which adversely affects the Company or its shareholders.

Although the Company has no control over these regulatory risks, it continuously monitors changes in these areas by participating in industry organizations and conferences, exchanging information with third party experts and employing qualified individuals to assess the impact of such changes on the Company's financial and operating results.

Environment and Safety Risks

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require Progress to incur costs to remedy such discharge. Although the Company believes that it will be in material compliance with current applicable environmental regulations no assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the

Company's financial condition, results of operations or prospects. There has been much public debate with respect to Canada's ability to meet these targets and the Government's strategy or alternative strategies with respect to climate change and the control of greenhouse gases. Implementation of strategies for reducing greenhouse gases whether to meet the limits required by the Kyoto Protocol or as otherwise determined, could have a material impact on the nature of oil and natural gas operations, including those of the Company. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict either the nature of those requirements or the impact on the Company and its operations and financial condition.

Canada is a signatory to the United Nations Framework Convention on Climate Change and has ratified the Kyoto Protocol established thereunder to set legally binding targets to reduce nationwide emissions of carbon dioxide, methane, nitrous oxide and other so-called "greenhouse gases". The Company's exploration and production facilities and other operations and activities emit greenhouse gases which will likely subject the Company to possible future legislation regulating emissions of greenhouse gases, such as the government of Canada's proposed *Clean Air Act* of 2006 and Alberta's recently enacted *Climate Change and Emissions Management Act*. The direct or indirect costs of these regulations may adversely affect the expected business of the Progress.

The board of directors has reviewed and approved policies and procedures covering environmental risks, emergency response and employee safety. These policies and procedures are designed to protect and maintain the environment with respect to all corporate operations on behalf of shareholders, employees and the public at large. The Company mitigates environmental and safety risks by maintaining its facilities, complying with all provincial and federal environmental and safety regulations and maintaining adequate insurance.

Credit Risks

The Company assumes customer credit risk associated with natural gas and crude oil sales, financial hedging transactions and joint venture participants

Management has established controls designed to mitigate the risk of default or non-payment with respect to natural gas and crude oil sales, financial hedging transactions and joint venture participants.

ADDITIONAL INFORMATION

Additional information regarding Progress and its business and operations, including the annual information form ("AIF") is available on the Company's profile at www.sedar.com. Copies of the AIF can also be obtained by contacting the Company at Progress Energy Resources Corp. 1200, 205 – 5th Avenue S.W., Calgary, Alberta, Canada T2P 2V7 or by e-mail at ir@progressenergy.com. This information is also accessible on the Company's web site at www.progressenergy.com

AUDITORS' REPORT

To the Shareholders of Progress Energy Resources Corp.

We have audited the consolidated balance sheets of Progress Energy Resources Corp. as at December 31, 2009 and 2008 and the consolidated statements of earnings, comprehensive income and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatements. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) "KPMG LLP"
Chartered Accountants
Calgary, Canada

February 22, 2010

PROGRESS ENERGY RESOURCES CORP.

CONSOLIDATED BALANCE SHEETS

<i>As at December 31 (\$ thousands)</i>	2009	2008
ASSETS		
Current		
Accounts receivable	41,086	37,931
Prepaid expenses and deposits	10,435	10,323
Fair value of financial instruments (Note 12)	2,848	10,242
Investments (Notes 4 and 12)	9,601	8,744
Future income taxes (Note 10)	-	2,046
	63,970	69,286
Property, plant and equipment (Note 4)	1,979,765	1,042,971
Future income taxes (Note 10)	-	34,064
Goodwill	414,655	414,655
	2,458,390	1,560,976
LIABILITIES		
Current		
Accounts payable and accrued liabilities	53,863	62,332
Cash dividends payable	16,528	-
Convertible debentures (Note 6)	55,180	-
Cash distributions payable	-	9,982
Current income taxes payable	-	5,240
Future income taxes (Note 10)	712	3,053
	126,283	80,607
Bank debt (Note 5)	277,878	299,531
Convertible debentures (Note 6)	241,573	124,708
Asset retirement obligations (Note 7)	39,423	29,412
Future income taxes (Note 10)	57,935	-
	743,092	534,258
NON-CONTROLLING INTEREST		
Exchangeable shares (Note 8)	-	123,836
SHAREHOLDERS' EQUITY		
Shareholders' capital (Note 9)	1,944,738	1,019,361
Convertible debentures (Note 6)	31,010	7,699
Contributed surplus (Note 9)	17,035	12,959
Deficit	(277,485)	(137,137)
	1,715,298	902,882
Commitments (Note 13)		
Subsequent events (Note 14)		
	2,458,390	1,560,976

See accompanying notes to the consolidated financial statements

Approved on behalf of the Board of Directors of Progress Energy Resources Corp.

(signed) “David D. Johnson”

Archibald”
Director

(signed) “Donald F.

Director

PROGRESS ENERGY RESOURCES CORP.

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS), COMPREHENSIVE INCOME (LOSS) AND DEFICIT

<i>Year ended December 31 (\$ thousands, except per share amounts)</i>	2009	2008
REVENUE		
Petroleum and natural gas	330,257	514,720
Royalties	(42,379)	(115,843)
	287,878	398,877
Realized gain (loss) on financial instruments <i>(Note 12)</i>	18,431	(12,127)
Unrealized gain (loss) on financial instruments <i>(Note 12)</i>	(11,736)	10,242
Unrealized gain (loss) on investments <i>(Note 12)</i>	857	(18,970)
	295,430	378,022
EXPENSES		
Operating	79,912	56,413
Transportation	35,949	18,993
General and administrative	13,604	10,284
Stock based compensation <i>(Note 9)</i>	11,572	8,329
Interest and financing	28,421	23,858
Depletion, depreciation and accretion	224,457	147,265
	393,915	265,142
Earnings (loss) before taxes and non-controlling interest	(98,485)	112,880
TAXES		
Current taxes (reduction) <i>(Note 10)</i>	(4,922)	39
Future income taxes (reduction) <i>(Note 10)</i>	(21,002)	3,227
	(25,924)	3,266
Net earnings (loss) before non-controlling interest	(72,561)	109,614
Non-controlling interest – exchangeable shares <i>(Note 8)</i>	-	(12,624)
NET EARNINGS (LOSS) AND OTHER COMPREHENSIVE INCOME (LOSS)	(72,561)	96,990
Deficit, beginning of year	(137,137)	(112,310)
Dividends/Distributions	(67,787)	(121,817)
Deficit, end of year	(277,485)	(137,137)
NET EARNINGS PER SHARE <i>(Note 9)</i>		
Basic	(0.45)	\$1.20
Diluted	(0.45)	\$1.18

See accompanying notes to the consolidated financial statements

PROGRESS ENERGY RESOURCES CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>Year ended December 31 (\$ thousands)</i>	2009	2008
OPERATING ACTIVITIES		
Net earnings (loss)	(72,561)	96,990
Unrealized loss (gain) on financial instruments <i>(Note 12)</i>	11,736	(10,242)
Unrealized loss (gain) on investments <i>(Note 12)</i>	(857)	18,970
Depletion, depreciation and accretion	224,457	147,265
Non-controlling interest – exchangeable shares <i>(Note 8)</i>	-	12,624
Convertible debentures accretion <i>(Note 6)</i>	2,315	1,476
Amortization of convertible debenture issue costs <i>(Note 6)</i>	1,422	1,115
Amortization of commodity sales contract	-	(371)
Stock based compensation expense <i>(Note 9)</i>	11,234	8,329
Asset retirement expenditures <i>(Note 7)</i>	(3,490)	(1,401)
Future income taxes (reduction)	(21,002)	3,227
	153,254	277,982
Changes in non-cash working capital <i>(Note 11)</i>	(6,574)	5,231
	146,680	283,213
FINANCING ACTIVITIES		
Increase (decrease) in bank debt	(184,868)	2,940
Issue of shares <i>(Note 9)</i>	140,507	-
Issue of 5.25% convertible debentures <i>(Note 6)</i>	200,000	-
5.25% convertible debenture issue costs <i>(Note 6)</i>	(8,381)	-
Cash dividends/distributions	(59,805)	(121,583)
Stock options exercised <i>(Note 9)</i>	1,745	-
Share issue costs <i>(Note 9)</i>	(6,691)	-
Changes in non-cash working capital <i>(Note 11)</i>	175	-
	82,682	(118,643)
INVESTING ACTIVITIES		
Plan of Arrangement <i>(Note 1)</i>	(7,633)	-
Capital expenditures	(190,025)	(157,226)
Changes in non-cash working capital <i>(Note 11)</i>	(31,704)	(7,344)
	(229,362)	(164,570)
CHANGE IN CASH AND SHORT-TERM INVESTMENTS	-	-
Cash and short-term investments, beginning of year	-	-
CASH AND SHORT-TERM INVESTMENTS, END OF YEAR	-	-

See accompanying notes to the consolidated financial statements

PROGRESS ENERGY RESOURCES CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts are in \$ thousands except for share and per share amounts)

1. PLAN OF ARRANGEMENT

On January 15, 2009 Progress Energy Trust (the “Trust”) and ProEx Energy Ltd. (“ProEx”) completed the plan of arrangement (the “Arrangement”) whereby ProEx acquired all of the issued and outstanding units of the Trust and the exchangeable shares of the Trust’s subsidiary, Progress Energy Ltd. and changed its name to Progress Energy Resources Corp. (“Progress” or the “Company”). The Trust unitholders received 0.8125 of a ProEx share for each trust unit held and the holders of exchangeable shares received 0.8125 of a ProEx share for each unit they were entitled to by multiplying the exchangeable shares held by the exchange ratio on January 15, 2009 of 1.62092.

Upon completion of the Arrangement, the Trust was liquidated and dissolved and Progress received all of the assets and assumed all of the liabilities of the Trust.

As a result of the Arrangement, the former owners of the Trust own approximately 61 percent of the Company and the former owners of ProEx own approximately 39 percent. In accordance with Canadian generally accepted accounting principles (“GAAP”), the Arrangement has been accounted for as a reverse takeover, whereby the Trust is deemed to be the acquirer of ProEx. The consolidated financial statements for 2009 reflect the financial position, results of operations and cash flows of the Company as if the Company had always carried on the business formerly carried on by the Trust. The year ended December 31, 2009 reflect the results of operations and cash flows of the Trust and its subsidiaries for the period January 1 to January 14, 2009 and the results of operations and cash flows of the Company and its subsidiaries for the period January 15 to December 31, 2009. The comparative amounts are the results of the Trust and its subsidiaries. Due to the change from a trust to a corporation, certain information included in the consolidated financial statements for prior periods may not be directly comparable.

The total consideration of the reverse takeover was approximately \$663.5 million based on the notional issuance of 73,479,481 Trust Units at \$9.26 per Trust Unit based on the weighted average trading price of the Trust for a period before and after the announcement date of November 17, 2008, adjusted for the effect of normal issue costs and including transaction and other costs of \$10.3 million. Using the purchase method of accounting, the net assets acquired and the consideration paid were as follows:

Net Assets at Assigned Values	
Current assets	35,565
Current liabilities	(54,359)
	(18,794)
Property, plant and equipment	967,078
Bank debt	(163,215)
Future income taxes	(114,698)
Asset retirement obligations	(6,827)
	663,544
Consideration	
Common shares issued	653,203
Transaction costs	7,633
ProEx options	2,708
	663,544

2. ORGANIZATION AND STRUCTURE OF THE BUSINESS

Progress is engaged in the exploration for, and the acquisition, development and production of, oil and natural gas reserves in the provinces of British Columbia and Alberta. Progress was incorporated on April 8, 2004 under the name ProEx Energy Ltd. and commenced commercial operations on July 2, 2004. On January 15, 2009, in connection with the Arrangement, ProEx was renamed Progress Energy Resources Corp. The Company currently has one wholly owned subsidiary and is a partner in a general partnership.

Relationship with ProEx Energy Ltd.

Progress (formerly ProEx) was created as part of a plan of arrangement effective July 2, 2004 which included the creation of the Trust. The Trust had no ownership interest in Progress and Progress had no ownership interest in the Trust. Progress had no employees. Prior to the completion of the Arrangement on January 15, 2009, a technical services agreement ("Technical Services Agreement") was in place between the Trust and Progress whereby the Trust provided personnel and certain administrative and technical services in connection with the management, development, exploitation and operation of the assets of Progress and the marketing of its production. The Trust provided these services to Progress on an expense reimbursement basis, based on Progress' monthly capital activity and production levels relative to the combined capital activity and production levels of both the Trust and Progress. Total expense reimbursed by Progress for the year ended December 31, 2009 was \$0.7 million (2008 – \$9.0 million).

The Trust and Progress also shared the cost of long-term compensation and consequently Progress granted stock options and shares to employees and executives of the Trust as service providers and had also participated in the long term incentive plan by granting Progress common shares to employees of the Trust, excluding the executives. To facilitate this plan, the Trust purchased Progress common shares and was reimbursed by Progress for the cost incurred. At the date of the Arrangement, 184,482 Progress shares had been purchased for future distribution under the plan. As at December 31, 2009 22,050 Progress common shares remain outstanding under this plan (2008 – 184,489).

The Trust and Progress had joint interests in certain properties and undeveloped land. These joint interest properties were governed by standard industry agreements and in addition, the Trust and Progress entered into a protocol arrangement (the "Protocol Arrangement") that specified how each company would manage the joint lands in specifically identified areas of interest. The Protocol Arrangement identified methods and processes to be followed on both existing and new lands, joint facilities, marketing, seismic and surface rights. To ensure good governance practices, both the Trust and Progress had each created independent committees of their Board of Directors to monitor compliance with the Technical Services Agreement and the Protocol Arrangement.

As a result of the Arrangement, both the Technical Services Agreement and the Protocol Arrangement were terminated.

3. SIGNIFICANT ACCOUNTING POLICIES

Nature of Business and Basis of Presentation

The Company is involved in the exploration, development and production of petroleum and natural gas in British Columbia and Alberta. The consolidated financial statements are stated in Canadian dollars and have been prepared in accordance with GAAP.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary.

Joint Operations

Substantially all of the exploration, development and production activities are conducted jointly with others and accordingly, the Company only reflects its proportionate interest in such activities.

Use of Estimates

The amounts recorded for depletion and depreciation of petroleum and natural gas property, plant and equipment and the asset retirement obligations and related accretion are based on estimates of petroleum and natural gas reserves and future costs. The cost recovery ceiling test is based on estimates of proved reserves, production rates, petroleum and natural gas prices, future costs and other relevant assumptions. Goodwill impairment tests involve estimates of the Company's fair value. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be material.

Cash and Short-Term Investments

Cash and short-term investments consist of cash in the bank, less outstanding cheques, and short-term deposits with a maturity of less than three months.

Petroleum and Natural Gas Properties

The Company uses the full cost method of accounting for petroleum and natural gas properties under which all costs related to the acquisition, exploration and development of petroleum and natural gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical costs, carrying charges of non-producing properties, costs of drilling both productive and non-productive wells, the cost of petroleum and natural gas production equipment and overhead charges related to exploration and development activities.

In accordance with the full cost accounting guideline, the Company evaluates its oil and gas assets to determine that the costs are recoverable and do not exceed the fair value of the properties. The costs are assessed to be recoverable if the sum of the undiscounted cash flows expected from the production of proved reserves and the lower of cost and market of unproved properties exceed the carrying value of the oil and gas assets. If the carrying value of the oil and gas assets is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying value exceeds the sum of the discounted cash flows expected from the production of proved plus probable reserves and the lower of cost and market of unproved properties. The cash flows are estimated using the future product prices and costs and are discounted using the risk-free rate.

Proceeds from the disposition of petroleum and natural gas properties are applied against capitalized costs except for dispositions that would change the rate of depletion and depreciation by 20 percent or more, in which case a gain or loss would be recorded.

Depletion and Depreciation

Capitalized costs, together with estimated future capital costs associated with proved reserves, are depleted and depreciated using the unit-of-production method based on estimated proven reserves of petroleum and natural gas on a Company interest basis (working interest plus royalty interest) before the deduction of crown and other royalties as determined by independent engineers. For purposes of this calculation, reserves and production are converted to equivalent units of oil based on a relative energy content of six thousand cubic feet of gas to one barrel of oil. Costs of significant unproved properties, net of impairments, are excluded from the depletion and depreciation calculation.

Other assets, which are comprised of office equipment and furniture and fixtures, are recorded at cost and are depreciated over their useful life on a declining balance basis at 20 percent.

Asset Retirement Obligations

The Company records a liability for the fair value of future asset retirement obligations in the period in which they are incurred, normally when the asset is purchased or developed. On recognition of the liability there is a corresponding increase in the carrying amount of the related asset within property, plant and equipment, which is depleted on a unit-of-production basis over the life of the reserves. Estimates used are evaluated on a periodic basis and any adjustments are applied prospectively. The liability is adjusted each reporting period to reflect the passage of time, with the accretion charged to earnings. Actual costs incurred upon settlement of the obligations

are charged against the liability. No gains or losses on retirement activities were realized due to settlements approximating the estimates.

Goodwill

Goodwill is recognized on corporate acquisitions when the total purchase price exceeds the fair value of the net identifiable assets of the acquired company. Goodwill is tested for impairment on an annual basis in the fourth quarter. If indications of impairment are present, a loss would be charged to earnings for the amount that the carrying value of goodwill exceeds its fair value.

Financial Instruments

The Company uses derivative financial instruments from time to time to hedge its exposure to commodity price and foreign exchange fluctuations. The Company may enter into crude oil and natural gas swap contracts, options or collars to hedge its exposure to petroleum and natural gas commodity prices and may enter into foreign exchange forward contracts to hedge anticipated US dollar denominated petroleum and natural gas sales. The Company recognizes the fair value of the derivative financial instruments each reporting period. The derivative financial instruments are initiated within the guidelines of the Company's risk management policy and the Company does not enter into derivative financial instruments for trading or speculative purposes.

Revenue Recognition

Revenues from the sale of petroleum and natural gas are recorded when title passes to an external party.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Temporary differences arising from the differences between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. The benefit of any uncertain tax benefits, if any, are only recognized if it is probable that they would be realized.

Stock Based Compensation

The Company has established a stock based compensation plan (the "Plan") comprised of a Stock Option Plan, as well as a Share Unit Plan which includes both restricted unit awards and performance unit awards (refer to note 9 for further details of the Plan). The Company uses the fair value method for valuing stock based compensation. Under this method, the compensation cost attributed to stock options, restricted unit awards and performance unit awards granted are measured at the fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. Upon the settlement of the stock options, restricted unit awards or performance unit awards, the previously recognized value in contributed surplus is recorded as an increase to shareholders' capital.

The Company had not incorporated an estimated forfeiture rate for grants under the Plan that will not vest, rather, the Company accounts for actual forfeitures as they occurred.

Grants that were outstanding from the Trust and ProEx, which include performance units and units granted under the LTI Component as well as stock options of ProEx, will continue until their original vesting dates (refer to note 9).

Per Share Information

Per share information is calculated on the basis of the weighted average number of Company shares outstanding during the fiscal year. Diluted per share information includes the impact of the potential dilution that could occur if securities or other contracts to issue shares were exercised or converted to shares. Diluted per share information is calculated using the treasury stock method that assumes any proceeds received by the Company upon the exercise of in-the-money share options plus the unamortized share compensation cost would be used to buy back Company shares at the average market price for the period.

As a result of the Arrangement and in accordance with Emerging Issues Committee Abstract 10 – *Reverse Takeover Accounting*, the per share information for the year ended December 31, 2009 has been calculated using the number of common shares issued to Trust unitholders and exchangeable shareholders as the shares outstanding

for the beginning of the period, January 1, 2009. For the comparative amounts for the year ended December 31, 2008, the basic per share information reflects only the common shares issued to Trust unitholders as being issued as of January 1, 2008 to be consistent with the accounting for non-controlling interest in 2008. The shares issued to exchangeable shareholders and shares issued for performance units that vested as a result of the Arrangement are included in the weighted average diluted shares for the year ended December 31, 2008.

Flow-through shares

The Company issues flow-through shares from time to time to finance a portion of its exploration and development activities. Pursuant to the terms of these issues, the tax benefits associated with the resource expenditures will be renounced to the shareholders in accordance with income tax legislation. To recognize the renunciation of the tax benefits, the future tax liability is increased and share capital is reduced by the estimated amount of the tax benefits renounced to the shareholders at the time the related expenditures are renounced.

Exchangeable Securities – Non-Controlling Interest

The Company accounted for outstanding exchangeable shares as non-controlling interest given exchangeable shareholders could have disposed of their shares without having to exchange them for company shares. The exchangeable shares of the Company's subsidiary traded on the Toronto Stock Exchange. As a result, the exchangeable shares were classified as non-controlling interest on the consolidated balance sheet outside of shareholders' equity. Net earnings attributable to the exchangeable shares was charged to the consolidated statement of earnings as non-controlling interest expense with a corresponding increase to non-controlling interest on the consolidated balance sheet.

Each redemption of exchangeable shares held by previous Progress Energy Ltd. shareholders was accounted for as a step-purchase resulting in an increase to property, plant and equipment, an increase to shareholders' capital and a decrease in the Company's future income tax asset. The non-controlling interest activity for the years ended December 31, 2009 and 2008 is disclosed in note 8.

New Accounting Standards

Effective January 1, 2009 Progress adopted Section 3064, Goodwill and Intangible Assets, which establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to its initial recognition. The new standard has no current impact on the Company's consolidated financial statements. This standard was adopted prospectively.

During 2009, amendments were made to Section 3862, Financial Instruments – Disclosures. The amendments include enhanced disclosures relating to the fair value of financial instruments and the liquidity risk associated with financial instruments. Section 3862 now requires that all financial instruments measured at fair value be categorized into one of three hierarchy levels. Refer to note 12 Financial Instruments for the enhanced disclosures and liquidity risk disclosures. The amendments are consistent with recent amendments to financial instruments disclosure under International Financial Reporting Standards.

Future Accounting Changes

In 2009 a new standard 1582, Business Combinations replaced the previous business combinations standard. The new standard applies prospectively to business combinations on or after January 1, 2011 with earlier adoption permitted. Under this standard, the purchase price used in a business combination is based on the fair value of shares exchanged at the market price at the acquisition or closing date. Under the current standard, the purchase price used is based on the market price of the shares for a reasonable period before and after the date the acquisition is announced. In addition, the new standard requires all acquisition costs to be expensed while the current standard allows for the capitalization of these costs as part of the purchase price. The new standard also addresses contingent liabilities, which will be required to be recognized at fair value on acquisition and subsequently remeasured at each reporting period until settled. The current standard requires only contingent liabilities that are payable to be recognized. The new standard requires negative goodwill to be recognized in earnings rather than the current standard of deducting from non-current assets in the purchase price allocation. Progress is currently assessing the impact of the standard. The adoption of section 1582 will also require the adoption of sections 1601 "Consolidated Financial Statements" and 1602 "Non-controlling interests". Progress is currently assessing the impact of the standard.

In 2009 two new standards, 1601, Consolidated Financial Statements and 1602, Non-Controlling Interests, were issued which replace the existing guidance under section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective for business combinations occurring on or after January 1, 2011, with early application permitted. Progress is currently assessing the impact of the standard.

4. PROPERTY, PLANT AND EQUIPMENT

	2009	2008
Property, plant and equipment	2,785,401	1,627,026
Accumulated depletion and depreciation	(805,636)	(584,055)
Property, plant and equipment, net	1,979,765	1,042,971

The calculation of 2009 depletion and depreciation expense included an estimated \$318.7 million (2008 - \$89.5 million) for future development costs associated with proved undeveloped reserves and excluded \$49.2 million (2008 - \$38.9 million) for the estimated salvage value of production equipment and facilities and \$227.9 million (2008 - \$109.1 million) for the carrying value of unproven properties. Depletion and depreciation expense for the year ended December 31, 2009 was \$221.0 million (2008 - \$144.5 million).

The Company capitalized approximately \$2.7 million of geological and geophysical compensation costs associated with the exploration and development of capital assets during the year ended December 31, 2009 (2008 - \$2.8 million).

On June 26, 2008, Progress disposed of its Saskatchewan properties to Seaview Energy Inc. ("Seaview") for gross proceeds of \$28.3 million (\$26.7 million net of final closing adjustments and fees). The amount received included \$5.4 million of cash and 8,300,000 Class A common shares of Seaview valued at \$2.76 per share. The accounting for the investment in Seaview is disclosed in note 12.

The Company performed a ceiling test calculation at December 31, 2009 resulting in the undiscounted cash flows from proved reserves and the lower of cost and market of unproved properties exceeding the carrying value of oil and gas assets. The following table summarizes the future benchmark prices the Company used in the ceiling test:

	Crude Oil		Natural Gas
	West Texas Intermediate (Cdn\$/bbl) ⁽¹⁾	Edmonton Par Price (Cdn\$/bbl)	AECO Gas price (Cdn\$/mmbtu)
2010	84.21	83.26	5.96
2011	87.37	86.42	6.79
2012	90.53	89.58	6.89
2013	93.68	92.74	6.95
2014	96.84	95.90	7.05
2015-2019 ⁽²⁾	102.60	101.87	7.95
Thereafter ⁽³⁾	2%	2%	2%

⁽¹⁾ Future prices incorporated a US/Cdn exchange rate of 0.95.

⁽²⁾ Prices shown are the average over the period.

⁽³⁾ Percentage change of 2.0% represents the change in future prices each year after 2019 to the end of the reserve life.

5. BANK DEBT

	2009	2008
Direct advances	17,878	17,531
Banker's acceptances	260,000	282,000
Total bank debt	277,878	299,531

The Company has extendible revolving term credit facilities in the amount of \$650 million from a syndicate of lenders. The borrowing base under the facilities is currently \$650 million and is subject to periodic re-determination by the lenders, the next renewal to occur on March 31, 2010. If renewed on March 31, 2010 the facilities will be available on a revolving basis until March 30, 2011, subject to extension at the lenders' discretion for successive 364 day periods. If an extension is not provided, the facilities will be available on a non-revolving basis for the following year and all amounts outstanding thereunder must be repaid in full at the end of such year. The facilities bear interest at a rate based on bankers acceptance rates (or LIBOR, for US dollar borrowings) plus a specified margin, which margin varies based on the Company's debt to cash flow ratio. The facilities contain customary restrictions on the incurrence of additional indebtedness, the disposition of assets and the granting of security. The facilities also contain customary events of default, including if a change of control has occurred in respect of the Company, which could occur: (a) if a person or persons acting jointly or in concert, acquired more than 30 percent of the outstanding voting securities of the Company; or (b) if 50 percent or more of the consolidated reserves of the Company and its subsidiaries were sold or otherwise disposed of to another person. The Company is restricted from making distributions (including the declaration of dividends) if it is in default under the facilities (or a default would reasonably be expected to occur as a result of such distribution) or if its outstanding borrowings exceed its borrowing threshold. As with previous credit facilities, the amount of the facilities is subject to a borrowing base review performed on a periodic basis by the lenders, based primarily on reserves and using commodity prices estimated by the lenders, as well as other factors. A decrease in the borrowing base could result in a reduction to the credit facilities which may require a repayment to the lenders over the following 12 month period. The last borrowing base review was performed in the fourth quarter of 2009 and as a result, there was no change to the current credit facilities. The facilities are secured by a \$1.5 billion fixed and floating charge debenture on the assets of the Company. The renewal is scheduled for March 31, 2010 and the next semi-annual borrowing base review will be in September 2010.

6. CONVERTIBLE DEBENTURES

On October 23, 2009 Progress issued \$200.0 million principal amount of 5.25 percent convertible unsecured subordinated debentures (the "5.25 percent debentures"). Interest on the 5.25 percent debentures is payable in equal instalments semi-annually in arrears on April 30 and October 31 in each year commencing April 30, 2010. The 5.25 percent debentures will mature on October 31, 2014. Each debenture may be converted into common shares at the option of the holder at a conversion price of \$18.00 per common share. After October 31, 2012, the Company may redeem the 5.25 percent debentures in whole or in part provided the common shares weighted average trading price during a specified period prior to redemption is at least 125 percent of the conversion price. The Company may satisfy the payment of principal or interest in common shares under certain circumstances.

The 6.75 percent debentures, the 6.25 percent debentures, and the 5.25 percent debentures (the "Debentures") have been classified as debt, net of issue costs and net of the fair value of the conversion feature at the date of issue which has been classified as part of shareholders' equity. The issue costs will be amortized over the term of the Debentures and the debt portion will accrete up to the principal balance at maturity. The accretion, amortization of issue costs and the interest paid are expensed within interest and financing expense on the consolidated statements of earnings. The fair value of the conversion feature was determined at the time of issue as the difference between the principal value of the debentures and the discounted cash flows assuming an eight percent rate for the 6.75 percent and 6.25 percent debentures and a rate of 8.3 percent for the 5.25 percent debentures, which were the estimated rates for debt with similar terms at the time. If the Debentures are converted to shares, a portion of the value of the conversion feature under shareholders' equity will be reclassified to shareholders' capital along with the conversion price paid.

The 6.75 percent debentures and the 6.25 percent debentures pay interest semi-annually and are convertible at the option of the holder at any time into fully paid common shares at a conversion price of \$18.46 per common share and \$24.00 per common share, respectively. Pursuant to the Arrangement, the conversion prices have been adjusted to reflect the ratio of common shares received for each Trust unit.

The 6.75 percent debentures mature on June 30, 2010 and the 6.25 percent debentures mature on September 30, 2011, at which time they are due and payable. The Company may elect to satisfy the interest and principal obligations by the issuance of common shares.

Debentures	2009				2008			
	6.75%	6.25%	5.25%	Total	6.75%	6.25%	5.25%	Total
Principal, beginning of year	55,667	75,000		130,667	55,727	75,000	-	130,727
Issued			200,000	200,000	-	-	-	-
Converted to Shares	-	-	-	-	(60)	-	-	(60)
Principal, end of year	55,667	75,000	200,000	330,667	55,667	75,000	-	130,667
Debt portion, beginning of year	54,196	70,512	-	124,708	53,274	68,900	-	122,174
Issued	-	-	168,308	168,308	-	-	-	-
Accretion	518	971	826	2,315	514	962	-	1,476
Amortization of issue costs	466	649	307	1,422	465	650	-	1,115
Converted to Shares ¹	-	-	-	-	(57)	-	-	(57)
Debt portion, end of year	55,180	72,132	169,441	296,753	54,196	70,512	-	124,708
Equity portion, beginning of year	2,753	4,946	-	7,699	2,756	4,946	-	7,702
Issued			23,311	23,311	-	-	-	-
Converted to Shares	-	-	-	-	(3)	-	-	(3)
Equity portion, end of year	2,753	4,946	23,311	31,010	2,753	4,946	-	7,699

(1) Net of unamortized issue costs.

Total interest charged to earnings for the year ended December 31, 2009 was \$14.2 million (2008 - \$11.0 million) which included \$2.3 million of debenture accretion (2008 - \$1.5 million) and \$1.4 million of amortized issue costs (2008 - \$1.1 million).

7. ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations were estimated based on the Company's net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods. The total undiscounted amount of the estimated cash flows required to settle the asset retirement obligations is approximately \$130.5 million which will be incurred over the next 40 years with the majority of costs incurred between 2018 and 2038. A credit adjusted risk-free rate of eight to nine percent and an inflation rate of two percent were used to calculate the fair value of the asset retirement obligations. The following reconciles the Company's asset retirement obligations:

	2009	2008
Balance, beginning of year	29,412	35,012
Liabilities incurred	3,798	3,307
Liabilities settled	(3,490)	(1,401)
Plan of Arrangement (Note 1)	6,827	-
Disposition	-	(3,504)
Accretion expense	2,876	2,798
Change in estimate	-	(6,800)
Balance, end of year	39,423	29,412

The change in estimate in 2008 is the result of an extension to the estimated timing of cash flows required to settle the asset retirement obligations.

8. NON-CONTROLLING INTEREST – EXCHANGEABLE SHARES

All outstanding exchangeable shares were converted to common shares as part of the Arrangement on January 15, 2009. Prior to the completion of the Arrangement on January 15, 2009, the non-controlling interest on the consolidated balance sheet consisted of the book value of exchangeable shares issued to Progress Energy Ltd. shareholders and the fair value of exchangeable shares issued to Cequel Energy Inc. shareholders as part of a plan of arrangement that became effective on July 2, 2004, and included the net earnings attributable to the exchangeable shares, less exchangeable shares (and related cumulative earnings) redeemed. The non-controlling interest charge on the consolidated statement of earnings represented the share of net earnings attributable to the exchangeable shares based on the trust units issuable for exchangeable shares in proportion to total trust units issued and issuable each period end.

	2009		2008	
	Number	Amount	Number	Amount
Exchangeable Shares				
Balance, beginning of year	8,101,591	123,836	9,173,083	126,384
Exchanged for trust units	(3,640)	(56)	(1,071,492)	(15,172)
Exchanged for common shares	(8,097,951)	(123,780)	-	-
Non-controlling interest expense		-		12,624
Balance, end of year	-	-	8,101,591	123,836

9. SHAREHOLDERS' EQUITY

An unlimited number of voting common shares may be authorized and issued. Each common share is transferable, carries the right to one vote and represents an equal undivided beneficial interest in any dividends from the Company and in the assets in the event of termination or winding-up of the Company. All common shares are of the same class with equal rights and privileges.

Shareholders' Capital

a) Common Shares of Progress Energy Resources Corp.

	2009		2008	
	Number	Amount	Number	Amount
Common Shares				
Balance, beginning of year	-	-	-	-
Issued for Trust units (Note 1)	81,107,815	1,019,417	-	-
Issued for Exchangeable Shares (Note 1)	10,664,982	122,752	-	-
Issued for ProEx shares (Note 1)	59,702,078	653,203	-	-
Share based compensation	504,062	10,518	-	-
Issued on exercise of options	248,666	1,745	-	-
Dividend reinvestment program	105,914	1,436	-	-
Issued for cash	12,950,000	140,507	-	-
Share issue costs (net of tax of \$1,851)		(4,840)		-
Balance, end of year	165,283,517	1,944,738	-	-

b) Trust Units of Progress Energy Trust

	2009		2008	
	Number	Amount	Number	Amount
Trust Units				
Balance, beginning of year	99,819,172	1,019,361	97,478,808	990,946
Exchangeable shares converted	5,831	56	1,610,970	17,674
Unit based compensation	-	-	725,394	10,681
Issued on conversion of Debentures	-	-	4,000	60
Exchanged for common shares <i>(Note 1)</i>	(99,825,003)	(1,019,417)		-
Balance, end of year	-	-	99,819,172	1,019,361

On October 15, 2009 the Company issued 105,914 common shares in payment of \$1.4 million of dividends for shareholders that elected to participate in the dividend reinvestment program ("DRIP"). The DRIP was implemented on August 28, 2009 to allow shareholders to elect to receive their dividend in shares. The number of shares issued is based on 95 percent of the average market price being the weighted average trading prices of the shares for the five consecutive trading days before the dividend payment date. Subsequent to year end, on January 15, 2010 the Company issued 97,206 common shares under the DRIP.

On February 18, 2009, Progress issued 12,950,000 common shares at a price of \$10.85 per share for aggregate gross proceeds of \$140.5 million (\$133.8 million, net of issue costs of approximately \$6.7 million).

Upon completion of the Arrangement on January 15, 2009, the existing Trust unitholders received 0.8125 of a common share for each trust unit held and the holders of exchangeable shares received 0.8125 of a common share for each unit they were entitled to by multiplying the exchangeable shares held by the exchange ratio on January 15, 2009 of 1.62092. Also on January 15, 2009, 202,495 shares were issued to settle the performance units that vested as part of the Arrangement at a performance factor of 1.5 times, resulting in \$3.4 million being transferred from contributed surplus to shareholders' capital.

In June 2009, 231,136 shares were issued to settle performance units that vested at a performance factor of 1.5 times and 16,549 share were issued to settle performance units that vested at a performance factor of 1.0 times, resulting in \$5.1 million being transferred from contributed surplus to shareholders' capital.

Management of Capital Structure

Progress' objectives when managing capital has not changed as a result of the Arrangement and the subsequent restructuring from a trust to a corporation. The objectives remain (i) to maintain a flexible capital structure which optimizes the cost of capital at acceptable risk; and (ii) to manage capital in a manner which balances the interests of equity and debt holders.

In the management of capital, Progress includes share capital and total debt, which is made up of bank debt, convertible unsecured debentures and working capital. Progress manages the capital structure and makes adjustments in light of current economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, Progress may issue new common shares, issue new debt, issue new debt to replace existing debt with different characteristics, adjust exploration and development capital expenditures, and acquire or dispose of assets. During the first quarter of 2009, Progress entered into a new credit facility, as well as issued 12,950,000 common shares at a price of \$10.85 per share to maintain its flexible capital structure. During the fourth quarter of 2009, the Company issued \$200.0 million of 5.25 percent convertible unsecured subordinated debentures described in note 6.

The key measures that the Company utilizes in evaluating its capital structure are total debt to cash flow from operating activities (before changes in non-cash working capital) and the current credit available from its creditors in relation to the Company's budgeted capital program. Total debt to cash flow from operating activities (before changes in non-cash working capital) is calculated as total debt divided by cash flow from operating activities (before changes in non-cash working capital) and represents the time period it would take to pay off the debt if no further capital expenditures were incurred and if cash flow from operating activities (before changes in non-cash

working capital) stayed constant. At December 31, 2009 total debt was \$583.9 million and cash flow from operating activities (before changes in non-cash working capital) for the year ended December 31, 2009 was \$153.3 million, resulting in a total debt to cash flow from operating activities (before changes in non-cash working capital) ratio of 3.8. This ratio, although higher than past ratios, will be reduced as a result of the financing subsequent to December 31, 2009 as described in note 14. During 2009 Progress reduced its capital investment program downward to \$175 million from its original \$350 million budget due to weak natural gas prices.

Net Earnings (Loss) Per Share

The following table summarizes the weighted average shares used in calculating net earnings (loss) per share:

	2009	2008
Weighted average shares – basic ⁽¹⁾	160,948,164	81,107,815
Issued for Exchangeable Shares ⁽²⁾	-	10,664,982
Issued for performance units ⁽²⁾	-	202,495
Performance units ⁽³⁾	572,067	555,355
Weighted average shares - diluted	161,520,231	92,530,647

(1) Adjusted to reflect the common shares issued for Trust units and Exchangeable shares as if they were issued on January 1, 2009. For 2008 only the common shares issued for Trust units are reflected as if they were issued on January 1, 2008.

(2) For the year ended December 31, 2008, the common shares issued for the exchangeable shares and the performance units that vested as a result of the Arrangement are reflected in the weighted average diluted shares total. This is consistent with the reporting in 2008 regarding non-controlling interest. An adjustment to the numerator of \$12.6 million for 2008 is required in the diluted earnings per share calculation to provide for earnings attributable to non-controlling interest.

(3) Adjusted to reflect the terms of the Arrangement described in note 1.

Shares potentially issuable on the conversion of the Debentures are anti-dilutive and are not included in the calculation of diluted weighted average shares for the years ended December 31, 2009 and 2008.

Stock based compensation expenses

In conjunction with the Arrangement, the Company has established a stock based compensation plan ("Plan") comprised of a Stock Option Plan, as well as a Share Unit Plan which includes both restricted unit awards and performance unit awards. Unless otherwise approved by the shareholders, the Company may grant up to a maximum of 1,700,000 common shares pursuant to the Share Unit Plan. The restricted unit awards are whole share awards that entitle the holder to that number of shares at the end of the vesting period. Performance unit awards are similar to the restricted unit awards, however, a performance factor is applied to the grant on the vesting date. Both the restricted unit awards and performance unit awards vest at the end of a three year period and include accumulated dividends paid over the vesting period, however for new employees, their initial grant will vest 20 percent on the first anniversary date, 30 percent on the second anniversary and 50 percent on the third anniversary. Under the Stock Option Plan, unless otherwise approved by the shareholders, the Company may grant up to a maximum of 10,000,000 stock options. The stock options granted under the Stock Option Plan vest one third in each of the second, third and fourth year anniversary dates from the date of grant. The options expire in five years from the date of grant.

Grants that were outstanding from the Trust and ProEx, which include performance units and units granted under the LTI Component as well as stock options of ProEx, will continue until their original vesting dates.

Stock options

As at December 31, 2009, there were 5,872,533 stock options outstanding. This includes stock options which were granted under the Plan and stock options that have continued from ProEx's original stock option plan.

The following table summarizes the stock option activity for the year ended December 31, 2009.

	Number of options	Weighted average exercise price
Balance, beginning of year	-	-
ProEx options assumed on the Arrangement <i>(Note 1)</i>	1,674,867	12.86
Granted	4,616,500	11.36
Forfeited	(170,168)	12.88
Exercised	(248,666)	7.02
Balance, end of year	5,872,533	11.93

The following table summarizes stock options outstanding and exercisable at December 31, 2009.

Range of exercise price	Options outstanding			Options exercisable	
	Number outstanding at period end	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at period end	Weighted average exercise price
\$9.35 to \$11.40	4,599,000	4.09	11.36	25,000	10.50
\$12.00 to \$14.14	1,000,033	2.40	13.64	634,533	13.63
\$14.50 to \$16.50	273,500	2.32	15.33	169,834	15.22
	5,872,533	3.72	11.93	829,367	13.86

The Company accounts for its stock based compensation plan using the fair value method. Under this method, a compensation cost is charged over the vesting period for stock options granted to officers, directors and employees with a corresponding increase to contributed surplus.

The fair value of the options granted during the year were estimated on the date of grant using a Black-Scholes option pricing model with weighted average assumptions and resulting values for grants as follows:

Assumptions	2009	2008
Risk free interest rate (%)	1.80	-
Expected life (years)	4.0	-
Expected volatility (%)	42.21	-
Expected dividend yield (%)	3.5	-
Weighted average fair value of options granted (\$)	3.00	-

Share units

The activity for the year ended December 31, 2009 relating to the Company's Share Unit Plan which includes both restricted units and performance units as described above, is as follows:

Restricted Units	2009	2008
Balance, beginning of year	-	-
Granted	93,259	-
Balance, end of year	93,259	-

Vesting Date		
2012	93,259	-
Total	93,259	-

Performance Units	2009	2008
Balance, beginning of year	-	-
Granted	259,950	-
Balance, end of year	259,950	-

Vesting Date		
2012	259,950	-
Total	259,950	-

Share Appreciation Rights (SARs)

ProEx had a Share Appreciation Rights (SARs) plan that allowed for the issuance of SARs to certain employees, which entitle the holder to receive a cash payment equal to the difference between the stated exercise price and the market price of common shares on the date of surrender. SARs vest equally over a three year period. The exercise price was based on the market price at the time of grant. At December 31, 2009, 85,000 (2008 – nil) SARs were outstanding at an average price of \$13.99. Compensation expense relating to the SARs for the year ended December 31, 2009 was nil (2008 – nil).

Long Term Incentive Component of the Trust

Awards granted under the LTI component will vest over three years with 40 percent vesting on the second anniversary of the date of grant and 60 percent vesting on the third anniversary of the date of grant. An additional 15 percent grant will be paid if the holder holds the common shares they receive on the second anniversary date for one additional year. For the year ended December 31, 2009, 53,719 common shares were issued to settle LTI amounts that vested. As at December 31, 2009 100,956 common shares remain outstanding under the LTI component at an average value of approximately \$17.13 per share. The total compensation cost of the LTI component is approximately \$2.7 million of which \$2.5 million will be recognized through stock based compensation expense and \$0.2 million will be capitalized over the vesting period.

Long Term Incentive Component of ProEx

ProEx participated in the Trust's LTI by granting common shares to non-executive Trust employees in their capacity as service providers. To facilitate these awards, the Trust had purchased ProEx common shares and was reimbursed by ProEx for the cost incurred. The ProEx awards granted under the LTI vest on the second anniversary date of the date of grant. As these shares have been purchased and will not be issued from treasury, the stock based compensation expense is a cash expense and the shares granted do not impact the diluted number of shares outstanding. During the year ended December 31, 2009 156,074 common shares were released to employees on the vesting of their ProEx LTI. As at December 31, 2009 22,050 common shares have not yet vested.

Performance Unit Incentive Plan

The outstanding performance units that had been granted by the Trust vest at the end of a three year performance period at which time they will be converted to common shares, or the cash equivalent, and include the accumulated distributions of the Trust and accumulated dividends of the Company over the three year period. For new employees hired their initial grant vests 20 percent on the first anniversary date, 30 percent on the second anniversary and 50 percent on the third anniversary. The actual number of common shares paid is dependent upon a performance factor that is determined based on the Company's performance relative to its peers and ranges from 0.5 to 1.5 times the initial grant, except for performance units granted to the Trust's executives effective July 2, 2007 and 2008 which can range from 0 to 3 times. Payment may be in the form of cash or common shares, at the Company's option. Management anticipates, at the end of the performance period, accumulated distributions and dividends will be paid in cash and common shares will be paid from treasury. Actual performance factors will not be determined until the end of the three year performance periods.

On June 19, 2009, 247,685 common shares were issued to settle the performance units vesting on July 2, 2009, resulting in \$5.1 million being transferred from contributed surplus to shareholders' capital.

On January 15, 2009, 202,495 common shares were issued to settle the performance units that vested as part of the Arrangement at a performance factor of 1.5 times. As a result \$3.4 million was transferred from contributed surplus to shareholders' capital.

As at December 31, 2009, there are 717,718 performance units outstanding with 319,373 vesting on July 2, 2010, and 398,345 vesting on July 2, 2011 the amounts of which have been adjusted by 0.8125 of a common share for each Trust unit as specified in the Arrangement. The stock based compensation expense is calculated using the current estimated performance factor for each performance unit grant based on the Company's operating performance. Actual performance factors will not be determined until the end of the performance period.

For the year ended December 31, 2009, \$11.6 million was charged to stock based compensation expense (2008 – \$8.3 million) and \$0.7 million was capitalized (2008 – \$0.8 million) relating to the total performance units, stock options and shares under the LTI component outstanding.

Performance Units of the Trust¹	2009	2008
Balance, beginning of year	1,087,247	1,127,913
Granted	-	453,375
Performance factor adjustment ²	144,543	191,709
Settled ²	(450,180)	(589,383)
Forfeited	(63,892)	(96,367)
Balance, end of year	717,718	1,087,247

Vesting Date		
2009	-	307,535
2010 ³	319,373	354,754
2011	398,345	424,958
Total	717,718	1,087,247

- (4) All amounts have been adjusted to reflect the ratio of 0.8125 of a common share for each trust unit as specified in the Arrangement.
- (5) As a result of the Arrangement, the performance units granted to non-executive employees in 2006, vested and were settled at a performance factor of 1.5 times resulting in the issuance of 202,495 common shares. In June 2009, the executive portion was settled at a performance factor of 1.5 times resulting in the issuance of 231,136 common shares. The non-executive employees, who receive their initial performance unit grants at the phased in vesting, resulted in the issuance of 16,549 common shares.
- (6) Using the current anticipated performance factor of 1.25 times, 85,132 additional common shares will be issued on the vesting of the 2010 performance units.

Units under LTI Component¹	2009	2008
Balance, beginning of year	161,284	153,957
Granted	-	23,967
Settled	(53,719)	-
Forfeited	(6,609)	(16,640)
Balance, end of year	100,956	161,284

Vesting Date		
2009	-	55,038
2010	86,993	92,033
2011	13,963	14,213
Total ²	100,956	161,284

- (3) All amounts have been adjusted to reflect the ratio of 0.8125 of a common share for each trust unit as specified in the Arrangement.
- (4) An additional 15 percent grant will be paid to LTI holders if a holder holds the shares they receive on the second anniversary date for one additional year. This would result in an additional 23,206 common shares issued by the Company.

The following table reconciles the Company's contributed surplus:

	2009	2008
Balance, beginning of year	12,959	14,468
ProEx options assumed on the Arrangement (<i>Note 1</i>)	2,708	-
Stock based compensation expense	11,234	8,329
Stock based compensation capitalized	652	843
Settlements	(10,518)	(10,681)
Balance, end of year	17,035	12,959

10. INCOME TAXES

The provision for income taxes in the consolidated statements of earnings reflect an effective tax rate which differs from the expected statutory tax rate. Differences were accounted for as follows:

	2009	2008
Earnings before taxes	(98,485)	112,880
Statutory income tax rate	29.3%	29.8%
Expected income taxes	(28,856)	33,638
Add (deduct)		
Stock based compensation	3,292	2,482
Reduction in income tax rates and certain tax balances	3,565	1,962
Revaluation of prior provisions	(6,521)	-
Expiration of capital losses	1,840	-
Taxable income designated to Shareholders ⁽¹⁾	-	(34,849)
Other	756	(6)
	(25,924)	3,227

The future income taxes liability at December 31 is comprised of the tax effect of temporary differences as follows:

	2009	2008
Property, plant and equipment	137,654	(17,226)
Asset retirement obligations	(9,856)	(7,414)
Non capital losses	(60,182)	(5,347)
Fair value of Financial Instruments	712	3,053
Share issue costs	(4,418)	(641)
Attributed Canadian Royalty Income	(5,263)	(5,482)
	58,647	(33,057)

As at December 31, 2009 the Company has estimated federal tax pools of \$1.7 billion (2008 - \$1.1 billion) available for deduction against future taxable income.

11. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital

	2009	2008
Accounts receivable	27,525	9,574
Prepaid expenses and deposits	2,440	(7,266)
Accounts payable	(63,205)	(4,424)
Current income taxes payable	(4,863)	3
Change in non-cash working capital	(38,103)	(2,113)
Relating to:		
Investing activities	(31,704)	(7,344)
Financing activities	175	-
Operating activities	(6,574)	5,231

Interest and taxes paid

	2009	2008
Interest paid	4,289	20,718
Income and other taxes paid	-	40

12. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

The Company's financial instruments recognized on the balance sheet consist of accounts receivable, investments, accounts payable and accrued liabilities, dividends payable, bank debt, convertible debentures and derivative natural gas and foreign exchange contracts ("financial instruments"). The fair value of these instruments, excluding the investments, convertible debentures and the derivative natural gas and foreign exchange contracts, approximate their carrying amounts due to their short terms to maturity or the indexed rate of interest on the bank debt. The fair value of the convertible debentures outstanding as at December 31, 2009 was approximately \$335.3 million (2008 - \$109.5 million).

In light of the current economic conditions, the Company continues to monitor its accounts receivable and its allowance for doubtful accounts. As at December 31, 2009 there have been no impairment issues. The Company has an allowance for doubtful accounts of approximately \$0.9 million.

On June 26, 2008 Progress disposed of its Saskatchewan properties to Seaview Energy Inc. ("Seaview") for gross proceeds of \$28.3 million (\$26.7 million net of final closing adjustments and fees). The amount received included \$5.4 million of cash and 8,300,000 Class A common shares of Seaview valued at \$2.76 per share. The Class A common shares are included in investments on the balance sheet and have been classified as a held for trading financial instrument and, as a result, is measured at fair market value each reporting period. Based on Seaview's closing trading price on December 31, 2009 of \$1.10 per share, an unrealized gain of \$0.8 million was recognized for the year ended December 31, 2009 (2008 - \$15.3 million loss) on the revaluation of the shares to \$9.1 million at December 31, 2009 (2008 - \$8.3 million).

During 2008, Progress received 448,578 shares of Crocotta Energy Inc. ("Crocotta") as a result of Crocotta's acquisition of a private company in which Progress had an ownership interest. The fair value of the investment in Crocotta, classified as a held for trading investment, was \$0.5 million (2008 - \$0.4 million), resulting in an unrealized gain of \$0.1 million for the year ended December 31, 2009 (2008 - \$3.7 million loss).

All of Progress' cash and cash equivalents, derivative natural gas contracts, investments and convertible debentures are transacted in active markets. Progress classifies the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Progress' cash and cash equivalents, derivative natural gas contracts, investments and convertible debentures have been assessed on the fair value hierarchy described above. The cash and cash equivalents, investments, and convertible debentures are classified as Level 1 as they are traded on the Toronto Stock Exchange. The natural gas contracts are classified as Level 2. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

Credit risk

The Company's accounts receivable are with customers and joint venture partners in the petroleum and natural gas business and are subject to normal credit risks. Concentration of credit risk is mitigated by marketing production to numerous purchasers under normal industry sale and payment terms. The Company routinely assesses the financial strength of its customers.

The Company may be exposed to certain losses in the event of non-performance by counterparties to commodity price contracts. The Company mitigates this risk by entering into transactions with highly rated major financial institutions.

At December 31, 2009, financial assets on the balance sheet are comprised of accounts receivables, held for trading investments and natural gas derivative contracts.

The maximum credit exposure at December 31, 2009 is the carrying amount of accounts receivable and natural gas derivative contracts of \$43.9 million combined. As is common in the petroleum and natural gas industry in western Canada, receivables relating to the sale of petroleum and natural gas are received on or about the 25th day of the following month. The Company markets its production to customers with investment grade credit ratings, if available in the area of production, or seeks parental guarantees and letters of credit. Of the \$41.1 million accounts receivable outstanding, \$32.0 related to the sale of petroleum and natural gas and was received January 25, 2010. The accounts receivable balance includes \$7.4 million from joint venture partners relating to the recovery of their interest in operating costs and capital spent. The largest amount owing from one partner was \$0.7 million. As the operator of properties, Progress has the ability to not allocate production to joint venture partners who are in default of amounts owing. At December 31, 2009 the allowance for doubtful accounts was \$0.9 million.

Currency risk

The Company does not sell or transact in any foreign currency, however, the United States ("US") dollar influences the price of petroleum and natural gas sold in Canada. Price fluctuations, as a result, can affect the fair value and future cash flows of derivative natural gas contracts, however, given it is an indirect influence, the impact of changing exchange rates cannot be quantified. The Company has derivative natural gas contracts outstanding at December 31, 2009 based on both Canadian and US natural gas market indices. The "basis hedges" outlined in the table below are the only instruments the Company had that are directly affected by changes in the US/Canadian exchange rate. A \$0.05 increase or decrease in the US/Canadian exchange rate would have resulted in a change of less than \$0.1 million to 2009 net earnings as a result of the change in fair value of the instruments net of future income taxes based on the terms of the instruments below. The Company's other financial assets and liabilities are not directly affected by a change in currency rates.

Interest rate risk

The Company is exposed to interest rate risk on its outstanding bank debt and Debentures. The bank debt has a floating interest rate and consequently changes to interest rates would impact the Company's future cash flows. The Company had no interest rate swaps or hedges at December 31, 2009. Changes in market interest rates will result in fluctuations to the fair value of the Debenture's given their fixed interest rates. An increase or decrease of one percent to the effective interest rate for the Company, given average bank debt for the year of approximately \$388.4 million, would have impacted 2009 net earnings by \$3.9 million.

Liquidity risk

Liquidity risk relates to the risk the Company will encounter difficulty in meeting obligations associated with its financial liabilities. The financial liabilities on its balance sheet consist of accounts payable, bank debt and the Debentures. As described in note 5, the credit facilities are available on a revolving basis for a period of at least 364 days until March 31, 2010 when it is subject to renewal, and such initial term out date may be extended for further 364 day periods at the request of the Company, subject to approval by the banks. Following the term out date, the facilities will be available on a non-revolving basis for a one year term, at which time the facilities would be due and payable. The Debentures mature in June 2010, September 2011, and October 2014. The Company anticipates it will continue to have adequate liquidity to fund its financial liabilities through its future cash flows (see also "Management of Capital Structure" in note 9). The Company had no defaults or breaches on its bank debt or any of its financial liabilities.

Market risk

Market risk is comprised of currency risk, interest rate risk and other price risks which consist primarily of fluctuations in petroleum and natural gas prices. The valuation of the financial assets and liabilities on the balance sheet at December 31, 2009 would not be directly impacted by changes in currency rates. Currency rates influence petroleum and natural gas prices, however this influence on commodity prices and the resulting impact on financial assets and liabilities cannot be accurately quantified. In regards to commodity prices, the financial instruments directly affected by changes in commodity prices are the derivative natural gas contracts listed below. Assuming a \$0.25 change to the price per thousand cubic feet of natural gas, the fair value change in the natural gas contracts would have impacted 2009 net earnings by approximately \$0.4 million based on the volumes and remaining terms of the contracts as at December 31, 2009 outlined below. The Company's financial instruments are not directly impacted by changes in crude oil prices. The results of the sensitivity should not be considered to be predictive of future performance. Changes in the fair value of the derivative natural gas contracts cannot generally be extrapolated because the relationship of change in certain variables to a change in fair value may not be linear.

Commodity Price Contracts

The Company has entered into several financial instruments for the purpose of protecting its cash flow from operations before changes in non-cash working capital. For the year ended December 31, 2009, the Company's risk management program had a net realized gain of \$18.4 million (2008 - \$12.1 million loss).

At December 31, 2009 the fair value was an asset of \$2.8 million (2008 - \$10.2 million asset), resulting in an unrealized loss of \$11.7 million for the year ended December 31, 2009 (2008 - \$10.2 million unrealized gain).

The Company has entered into short-term fixed price natural gas swaps and AECO basis swaps for the 2009/2010 winter season whereby the Company swaps AECO pricing for Nymex pricing less a fixed amount. The aggregate AECO basis swap amounts total 25,000 mmbtu per day from November 1, 2009 to March 31, 2010 with an average fixed differential of US\$0.63 per mmbtu. The Company also entered into foreign currency swaps on the US dollar at an average rate of \$0.86 Canadian to United States dollars on a notional volume of 15,000 mmbtu per day from November 1, 2009 to March 31, 2010. The Company settled the foreign currency swaps for net proceeds of \$1.3 million in the fourth quarter. The Company has entered into a natural gas put option for the 2010/2011 winter season whereby the Company has the option to sell natural gas at a price of \$6.43. The aggregate purchased put amount totals 25,000 gj per day from November 1, 2010 to March 31, 2011 with a premium of \$1.08 per gj.

Contracts outstanding in respect to financial instruments are as follows:

Natural gas

Contracts	Volume	Pricing Point	Strike Price \$/gj	Term
Fixed Price Swap	100,000 gj/d	AECO	\$5.00	Jan 1/10 to Jan 31/10
Fixed Price Swap	25,000 gj/d	AECO	\$5.335	Feb 1/10 to Feb 28/10
Fixed Price Swap ⁽¹⁾	10,000 gj/d	AECO	\$5.750	Mar 1/10 to Dec 31/10
Fixed Price Swap ⁽¹⁾	10,000 gj/d	AECO	\$5.800	Mar 1/10 to Dec 31/10

Contracts	Volume	Pricing Point	Differential	Term
Swap – basis hedge	5,000 mmbtu/d	Nymex	(\$0.66)	Nov 01/09 to Mar 31/10
Swap – basis hedge	5,000 mmbtu/d	Nymex	(\$0.64)	Nov 01/09 to Mar 31/10
Swap – basis hedge	5,000 mmbtu/d	Nymex	(\$0.63)	Nov 01/09 to Mar 31/10
Swap – basis hedge	5,000 mmbtu/d	Nymex	(\$0.61)	Nov 01/09 to Mar 31/10
Swap – basis hedge	5,000 mmbtu/d	Nymex	(\$0.61)	Nov 01/09 to Mar 31/10

Purchased Puts	Volume	Pricing Point	Strike Price \$/gj	Premium \$/gj	Term
Put Option	25,000 gj/d	AECO	\$6.43	\$1.08	Nov 01/10 to Mar 31/11

Contracts	Volume	Pricing Point	Strike Price \$/gj	Term
Sold Calls ⁽¹⁾	10,000 gj/d	AECO	\$7.575	Jan 1/11 to Dec 31/11
Sold Calls ⁽¹⁾	10,000 gj/d	AECO	\$7.500	Jan 1/11 to Dec 31/11

(1) Entered into subsequent to year end.

13. COMMITMENTS

The Company is committed to future minimum payments for the Debentures, natural gas transportation contracts, drilling rig agreements, and office space. The Company's extendible term credit facilities are available on a revolving basis until March 31, 2010. This initial term out date may be extended for a further 364 day period at the request of the Company, subject to approval by the banks. Following the term out date, the facilities will be available on a non-revolving basis for a 364 day period. Without assuming the renewal of the credit facilities payments required under these commitments for each of the next five years are: 2010 - \$108.6 million; 2011 - \$382.0 million; 2012 - \$7.5 million; 2013 - \$2.8 million; and 2014 - \$200.7 million. Future commitments related to bank debt and the Debentures are disclosed in notes 5 and 6, respectively.

14. SUBSEQUENT EVENTS

On February 9, 2010 Progress entered into an agreement to acquire certain northeast British Columbia Foothills assets for approximately \$390 million before closing adjustments (the "Asset Acquisition"). The Asset Acquisition is expected to close on or about March 31, 2010. Certain of the lands are subject to rights of first refusal ("ROFR"). ROFR lands constitute approximately 25 percent of the total current production and proved reserves at December 31, 2009. A deposit of \$39 million was made at signing of the purchase and sale agreement which is refundable to Progress if the sale of assets does not occur due either to a default by the Vendor or the Vendor's failure to comply with certain conditions. If the sale does not occur for any other reason, the deposit is forfeited to the Vendor.

In conjunction with the Asset Acquisition, Progress has entered into a \$350 million subscription receipt private placement with the Canada Pension Plan Investment Board and a concurrent \$250 million subscription receipt bought deal public financing for a total of \$600 million before underwriters fees and other issue costs. The additional proceeds over the Asset Acquisition amount will initially be used to repay a portion of the outstanding bank debt thereby making a larger portion of the credit facilities available to fund the Company's 2010 capital program. Each private placement subscription receipt and public subscription receipt will represent the right to receive one common share of Progress, without the payment of any additional consideration, subject to the closing of the Asset Acquisition.

2009 SELECTED QUARTERLY INFORMATION

FINANCIAL HIGHLIGHTS

(unaudited)

(\$ thousands except per share amounts)

	Three Months Ended 2009				Annual
	March 31	June 30	Sept. 30	Dec. 31	2009
Income Statement					
Petroleum and natural gas revenue	102,660	77,031	64,421	86,145	330,257
Cash flow ¹	68,767	29,956	20,596	33,935	153,254
Per share – diluted	0.46	0.18	0.12	0.20	0.95
Cash dividends declared ²	17,134	17,611	16,513	16,528	67,787
Per share	0.10	0.10	0.10	0.10	0.40
Net earnings	(4,694)	(20,915)	(26,877)	(20,075)	(72,561)
Per share – basic	(0.03)	(0.13)	(0.16)	(0.12)	(0.45)
Per share – diluted	(0.03)	(0.13)	(0.16)	(0.12)	(0.45)
Balance Sheet					
Exploration and development capital	97,780	12,034	32,445	49,512	191,770
Net property acquisitions (dispositions)	143	60	(403)	(1,546)	(1,745)
Total capital expenditures	97,923	12,094	32,042	47,966	190,025
Working capital deficiency (surplus)	37,869	(8,696)	9,041	9,269	9,269
Bank debt	387,956	429,944	440,518	277,878	277,878
Convertible debentures	125,352	126,002	126,656	296,753	296,753
Total debt	551,177	547,250	576,215	583,900	583,900
Shareholders' equity	1,798,767	1,764,050	1,723,658	1,715,298	1,715,298
Common Shares (thousands except where otherwise stated)					
Shares outstanding, end of period	164,627	165,075	165,126	165,284	165,284
Weighted average shares - basic	146,743	164,749	165,120	165,258	160,948
Weighted average shares - diluted	149,479	165,328	165,666	165,927	161,520
Common Share Trading Statistics (\$)					
High	12.45	11.72	14.02	15.29	15.29
Low	7.60	8.70	8.52	12.49	7.60
Closing	9.36	10.16	13.82	14.15	14.15
Share volume traded (thousands)	54,304	52,501	50,758	43,897	201,457

¹ Cash flow represents the cash flow from operations before changes in non-cash working capital, which as presented does not have any standardized meaning prescribed by Canadian GAAP and therefore it may not be comparable with the calculation of similar measures for other entities.

² The dividends declared in the first and second quarters of 2009 include \$0.7 million and \$1.0 million, respectively, of accumulated distributions and dividends paid on performance units that vested during the periods.

2009 SELECTED QUARTERLY INFORMATION

Operational Highlights (unaudited)	Three Months Ended 2009				Annual
	March 31	June 30	Sept. 30	Dec. 31	2009
Daily Production					
Natural gas (mcf/d)	174,535	174,472	157,522	161,497	166,939
Crude oil (bbls/d)	2,151	2,121	1,874	1,882	2,008
Natural gas liquids (bbls/d)	1,930	2,617	1,995	2,592	2,284
Total daily production (boe/d)	33,170	33,817	30,122	31,390	32,115
Average Realized Prices					
Natural gas (\$/mcf)	5.52	3.62	3.10	4.21	4.13
Crude oil (\$/bbl)	44.50	56.15	69.66	71.06	59.78
Natural gas liquids (\$/bbl)	38.98	37.61	41.46	49.15	42.05
Highlights (\$/boe)					
Weighted average sales price ¹	34.39	25.03	23.25	29.83	28.17
Realized gain (loss) on financial instruments	5.85	-	0.41	(0.06)	1.57
Royalties	(5.58)	(2.41)	(2.22)	(4.21)	(3.62)
Operating expenses	(6.72)	(7.09)	(6.94)	(6.51)	(6.82)
Transportation expenses	(2.90)	(2.91)	(3.30)	(3.19)	(3.07)
Operating Netbacks	25.04	12.62	11.20	15.86	16.23
General and administrative expense	(1.18)	(1.17)	(1.15)	(1.14)	(1.16)
Stock based compensation expense	(1.13)	(0.92)	(0.92)	(0.99)	(1.00)
Interest and financing expenses	(2.18)	(2.01)	(2.25)	(3.29)	(2.42)
Unrealized gain/(loss) on financial instruments	(4.89)	0.10	(0.31)	1.17	(1.00)
Unrealized gain/(loss) on investments	(0.69)	1.24	(0.06)	(0.24)	0.07
Depletion, depreciation and accretion expense	(18.77)	(18.83)	(18.99)	(20.04)	(19.15)
Net earnings before taxes	(3.80)	(8.97)	(12.48)	(8.67)	(8.43)
Future income taxes recovery	0.47	2.17	2.76	1.82	1.79
Current income tax recovery (expense)	1.76	-	-	(0.11)	0.42
Net Earnings	(1.57)	(6.80)	(9.72)	(6.96)	(6.22)
Drilling Results (# of Wells)					
Gross	29	-	11	12	52
Net – natural gas	25.5	-	10.1	9.1	44.8
Success Rate (percent)	88	N/A	100%	100%	93%

¹ Includes sulphur net revenue with no associated production as no conversion exists for tons to boe.

CORPORATE INFORMATION OF PROGRESS ENERGY RESOURCES CORP.

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Calgary, Alberta

Gary E. Perron ⁽¹⁾⁽³⁾
Senior Vice President and
Managing Director
BMO Nesbitt Burns
Calgary, Alberta

Brian McLachlan ⁽²⁾⁽³⁾
President & CEO
Yoho Resources Inc.
Calgary, Alberta

Terrance D. Svarich ⁽²⁾⁽⁴⁾
President
Devsun Ltd.
Calgary, Alberta

⁽¹⁾ Member of Audit Committee

⁽²⁾ Member of Reserve Committee

⁽³⁾ Member of Compensation
Committee

⁽⁴⁾ Member of Corporate Governance and
Nominating Committee

Environment, Health and Safety matters are
addressed by the entire Board of Directors

OFFICERS

David D. Johnson
Executive Chairman

Michael R. Culbert
President and CEO

Daniel C. Topolinsky
Executive Vice President,
Exploration and Development

Greg W. Kist
Vice President, Investor
Relations and Marketing

Art A. MacNichol
Vice President, Finance &
Chief Financial Officer

Gary A. Miller
Vice President, Operations

Cindy R. Rutherford
Vice President, Land

James L. Stannard
Vice President, Engineering

Gary R. Bugeaud
Secretary

CORPORATE OFFICE

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Calgary, Alberta T2P 2V7
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Fax: (403) 216-2514

TRUSTEE AND TRANSFER AGENT

Computershare Trust Company
of Canada
Calgary, Alberta

STOCK EXCHANGE

The Toronto Stock Exchange
trading symbols:
Common Shares- PRQ
6.75% Debentures – PRQ.DB
6.25% Debentures – PRQ.DB.A
5.25% Debentures – PRQ.DB.B

SOLICITOR

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

AUDITOR

KPMG LLP
Calgary, Alberta

CONSULTING ENGINEERS

GLJ Petroleum Consultants
Calgary, Alberta

INVESTOR RELATIONS

Greg Kist
Vice President, Investor Relations
and Marketing
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